Special Double Issue

JOURNAL OF ACCOUNTANCY

A Publication of the American Institute of CPAs • APRIL/MAY 2015

Meet the Future

FINANCIAL REPORTING • TECHNOLOGY
PRACTICE MANAGEMENT • AUDITING

A Look at the Trends That Will Shape the Profession in the Years Ahead

30–52

GET THE WHOLE PICTURE

THE WOW FACTOR

"I always talk about the 'Wow' factor ... something that really inspires you and makes you say 'I didn't know I could do this.' Well, Checkpoint Catalyst has done that for our firm."

– **David A. Springsteen**, CPA, MBA, CGMA,
Senior Partner in charge of Tax Services, WithumSmith+ Brown, PC

See for yourself why Checkpoint Catalyst has the "wow factor" and why **Accounting Today** says that Checkpoint Catalyst is "an impressive new tool, well worth a look..."*

*Accounting Today, New Products, June 2014

CheckpointCatalyst.com

THOMSON REUTERS™

AICPA® Young CPA Network

THEIR WORK HAS MADE
AN IMPRESSION ON YOU.

NOW IT'S TIME TO IMPRESS YOUR

YOUNG CPAs.

The next generation of leaders in the accounting profession are looking to you to acknowledge their value and advocate their potential. By sending your standout CPAs to this year's E.D.G.E. Conference, you demonstrate a clear statement as a leader who invests in the firm and its talent. Based on the valuable information they will receive, you'll be glad you did.

THE OFFICIAL CONFERENCE FOR YOUNG CPAs

Aug. 5–7 | San Antonio, TX | Register Today

SAVE $50
WITH CODE EDGEJoA

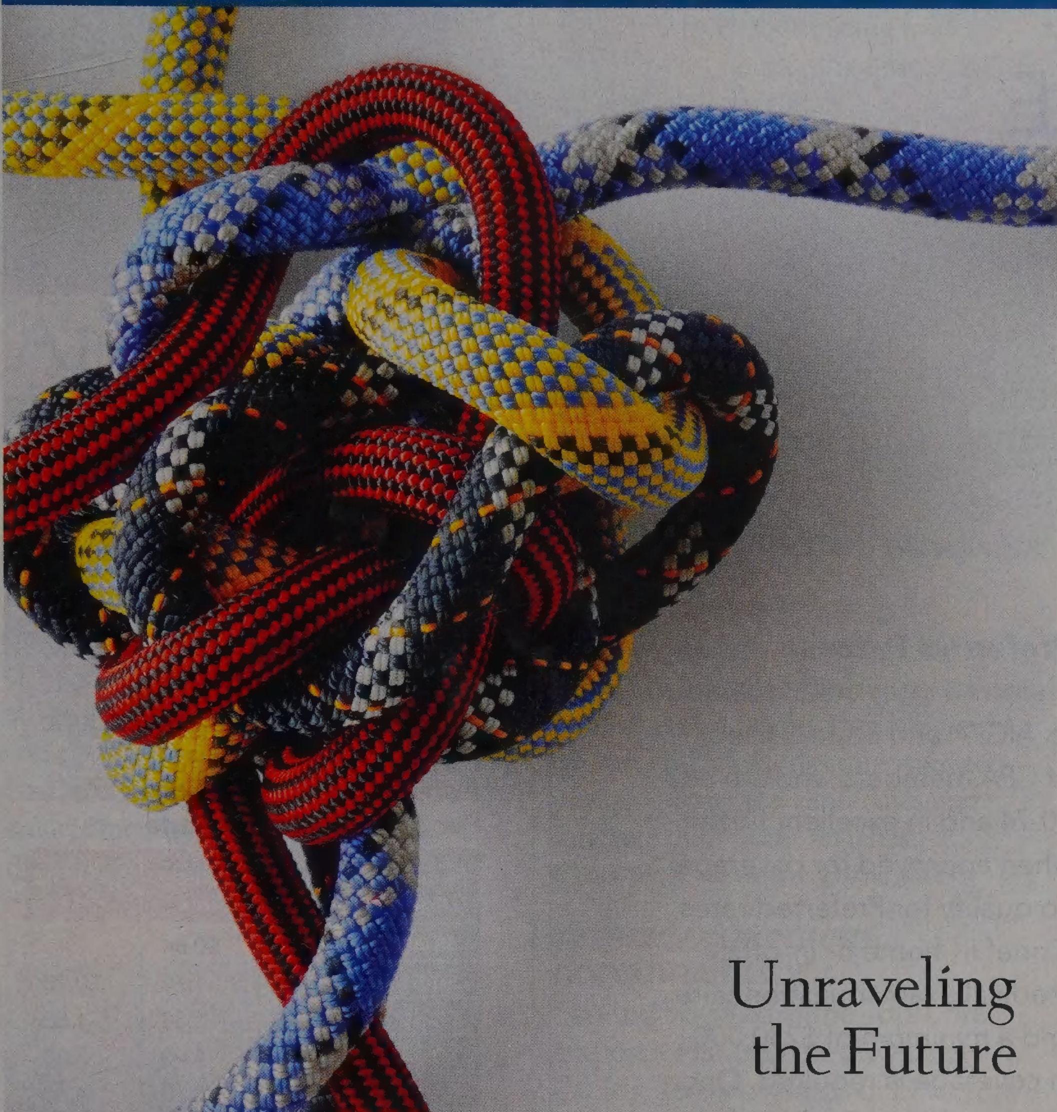
aicpa.org/EDGE | #AICPA_EDGE

2015 E.D.G.E. CONFERENCE
WILL BE NOTHING SHORT OF REVOLUTIONARY.

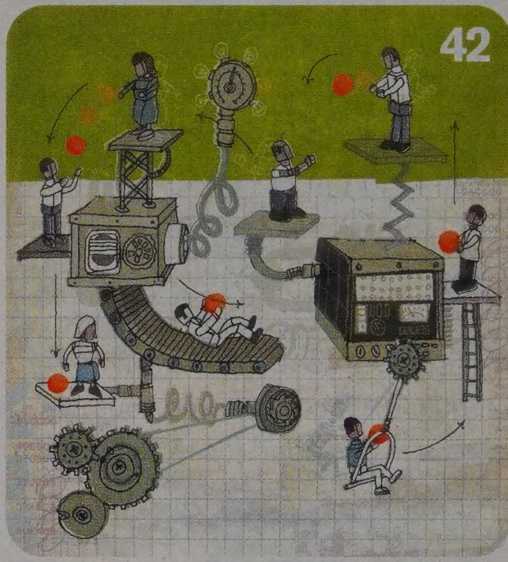
CONTENTS

APRIL/MAY 2015

Vol. 219 www.journalofaccountancy.com Issue 4

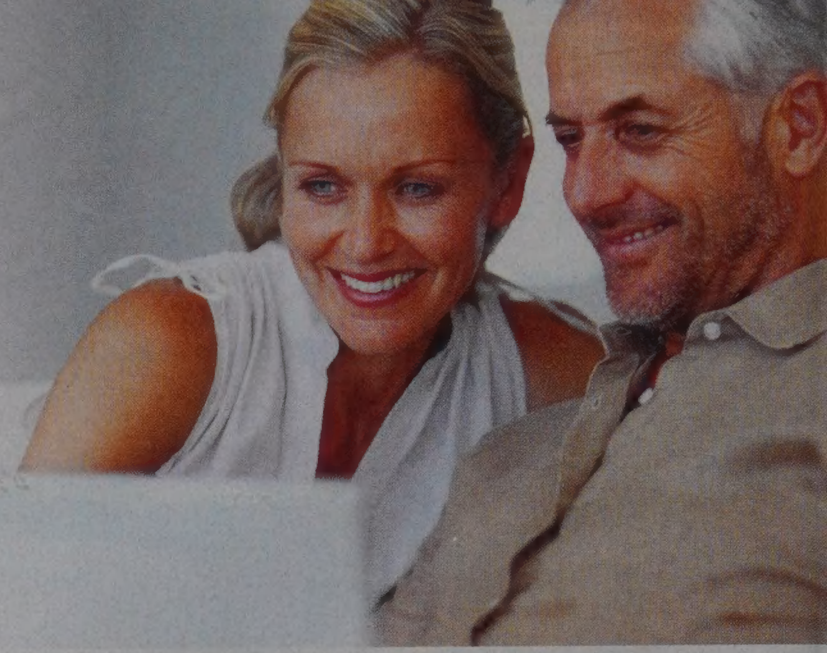


On the cover: Photo by ava09/iStock; above: Photo by filonmar/iStock



TOP RIGHT: ILLUSTRATION BY RICHARD BORGE/THE ISPOT; BOTTOM RIGHT: IMAGE BY HIMALAJA/ISTOCK

AICPA® AICPA Insurance Trust
Member Insurance Programs



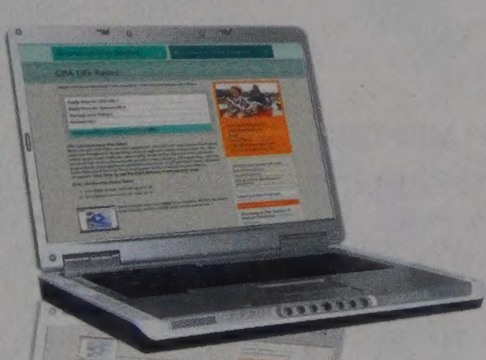
Attention: CPAs Age 45-74

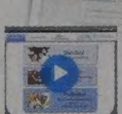
LOWER RATES. SAME RELIABLE COVERAGE.

Discover how a simple change in status could lower your rates–with either Preferred or Select status–available under the AICPA Life Insurance Plans, issued by The Prudential Insurance Company of America.

Select Rates

Select rates are available to AICPA and State Society of CPA members who are age 45-74 and in good health when approved for coverage. In most cases no medical exam is required. Once approved your Select status is good for 15 years!





Interested in lowering your costs?
It's easy! Watch our video to find out how.

Preferred Rates

Preferred rates are available to AICPA and State Society of CPA members who are age 50-74 and in excellent health when approved for coverage. To qualify for Preferred rates, a brief in-home or in-office medical exam, questionnaire and a minimum of $250,000 in coverage is required. Once approved, your Preferred status is good for 20 years!

If for any reason you aren't approved your insurance coverage won't be terminated or decreased. You'll simply pay the lowest rate you qualify for.

Visit cpai.com/liferate for more information today.

Male Monthly Gross Rates*

Per $10,000 of coverage

Male Age	Standard Rate	Select Rate	Preferred Rate
45-49	$1.58	$0.80	–
50-54	2.90	1.50	$1.12
55-59	5.40	2.80	1.88
60-64	9.60	5.40	3.30
65-69	16.90	9.70	5.70
70-74	30.20	19.40	10.90

Female Monthly Gross Rates*

Per $10,000 of coverage

Female Age	Standard Rate	Select Rate	Preferred Rate
45-49	$1.32	$0.64	–
50-54	2.30	1.20	$0.90
55-59	4.40	2.30	1.56
60-64	7.80	4.40	2.80
65-69	13.70	8.20	4.60
70-74	24.40	15.50	8.50

*These rates do not include optional Accidental Death & Dismemberment or Disability Waiver coverage.

Remember, Cash Refunds can lower your cost even further!

Although not guaranteed participants under all AICPA Insurance Trust Plans have received Cash Refunds from the Trust every year, without fail, since the Plan's inception.

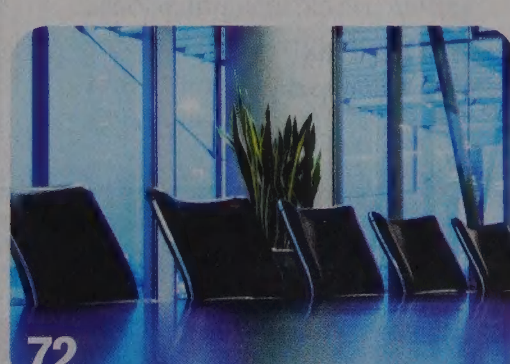
This policy provides ACCIDENT insurance only. It does NOT provide basic hospital, basic medical or major medical insurance as defined by the New York Department of Financial Services.

IMPORTANT NOTICE - THIS POLICY DOES NOT PROVIDE COVERAGE FOR SICKNESS.

Coverage under the Group Term Life Insurance Plan is issued by The Prudential Insurance Company of America, 751 Broad Street, Newark, NJ 07102. Plan details, limitations and exclusions are described in your certificate. Contract Series 83500. Aon Insurance Services is the brand name for the brokerage and program administration operations of Affinity Insurance Services, Inc.; (TX 13695); (AR 244489); in CA & MN, AIS Affinity Insurance Agency, Inc. (CA 0795465); in OK, AIS Affinity Insurance Services Inc.; in CA, Aon Affinity Insurance Services, Inc., (0G94493), Aon Direct Insurance Administrators and Berkely Insurance Agency and in NY, AIS Affinity Insurance Agency.

CONTENTS

ARTICLES



»

TOP RIGHT: PHOTO BY CHRISHEPBURN/ISTOCK; BOTTOM RIGHT: ILLUSTRATION BY JOHNWOODCOCK/ISTOCK

CONTENTS

NEWS

22

COLUMNS

OFFICIAL LITERATURE

102 | SPONSORED REPORT

Career Toolkit

This report explores a simple tool for employers to determine (and thus protect) the things that keep top employees on the job. The toolkit offers a road map for a successful start for new hires. For employees, it features a seven-step career checkup and a list of considerations for anyone mulling a job change.

CPE DIRECT:

Another major benefit for *JofA* readers

Stay current through the *JofA* and earn CPE credit based on *JofA* articles—with the ***CPE Direct*** self-study subscription program. You can earn up to 48 CPE credits a year. Quarterly ***CPE Direct* study guides** combine *JofA* articles with supplementary materials and exams.

An annual subscription is $189 for AICPA members or $236.25 for nonmembers. For more information or to order, visit **www.cpa2biz.com/cpe**, or call 888-777-7077.

CPE This symbol identifies articles in the ***CPE Direct*** self-study program.

! Advertisers in this issue, page 131

AICPA®

Journal of Accountancy (ISSN 0021-8448), April/May 2015. Published monthly by the American Institute of Certified Public Accountants, Inc. Volume 219, Number 4. Subscription rates: United States, $75 a year ($69 for renewals); outside U.S., $100 ($94 for renewals); single copy, $12. Publication, editorial and business office: 220 Leigh Farm Road, Durham, NC 27707-8110. Editorial: 919-402-4449, email: joaed@aicpa.org; Advertising: 800-873-1677; Circulation: 888-777-7077. Periodicals postage paid at Durham, N.C., and at additional mailing office. Change of address notices and orders for subscriptions are to be sent to 220 Leigh Farm Road, Durham, NC 27707-8110. Subscribers ordering an address change must give four weeks notice and both new and old address, including ZIP code. Member of BPA International. Postmaster: Please send address changes to the *Journal of Accountancy*, Fulfillment Manager, 220 Leigh Farm Road, Durham, NC 27707-8110. Canada Publication Agreement number 40020939. Printed in the U.S.A. The contents of the *Journal of Accountancy*, P.O. publication identification no. ISSN 0021-8448, are indexed in the Accounting & Tax Database, distributed by Bell & Howell Information & Learning, in print subscription and online through DIALOG (file 485). Opinions expressed in the *Journal of Accountancy* are those of editors or contributors. They may differ from policies of the American Institute of CPAs and its committees.

JOURNAL OF ACCOUNTANCY

Reliable. Resourceful. Respected.

RESOURCE GUIDE

EDITORIAL
919-402-4449 ▪ joaed@aicpa.org

ADVERTISING
Display and classified ads (media kits; mailings; editorial calendars; rates): Mo Ziyambe, national account representative, 800-873-1677 or advertisingsales@aicpa.org

CHANGE OF ADDRESS/ CUSTOMER SERVICE
888-777-7077

PUBLISHED ARTICLES AND REPRINTS
Commercial reprints (orders of 500 or more): YGS Group, 717-399-1900, ext. 100

Permission to reprint *Journal of Accountancy* articles: Copyright Clearance Center at 978-750-8400 or www.copyright.com

Photocopies of old articles; article research (for members only): University of Mississippi, 866-806-2133

ARTICLE SUBMISSIONS
Articles and news submissions, and author guidelines:
Amelia Rasmus, 919-402-4449, arasmus@aicpa.org

ORDERS/SUBSCRIPTIONS
For AICPA publications, 888-777-7077

Contributing AUTHORS

- **Will Simpler Also Be Better?** page 30
- **Data Analytics Helps Auditors Gain Deep Insight** page 52

Maria L. Murphy, CPA, is a freelance writer. She has worked in public accounting as an audit and technical review partner and as a national office director, in private industry in accounting and financial reporting roles, and most recently as editor-in-chief of *The CPA Journal*.

- **Beyond Spreadsheets: Technology Round Table, Part 1** page 36
- **Models of Success?** page 42

Jeff Drew is a *JofA* senior editor. He oversees coverage of practice management and technology. He has more than 20 years of journalism experience, including nearly 10 years in various editorial capacities with American City Business Journals.

- **Driving Faster Decisions** page 48
- **Data Analytics Helps Auditors Gain Deep Insight** page 52

Ken Tysiac is a *JofA* editorial director. He covers breaking news for journalofaccountancy.com and for the print edition of the *JofA*. He has more than 20 years of journalism experience, including work with *The Charlotte Observer* and *The News & Observer*, of Raleigh, N.C., and has had two books published.

- **What's Your Fraud IQ?** page 60

Andi McNeal, CPA, CFE, is director of research for the Association of Certified Fraud Examiners (ACFE), where she oversees the development and production of educational materials related to the prevention, detection, and investigation of fraud. She co-authored the 2008, 2010, 2012, and 2014 editions of the *Report to the Nation(s) on Occupational Fraud and Abuse*, a biennial report the ACFE issues on the costs and effects of occupational fraud.

- **You Made Partner: Now What?** page 66

Courtney L. Vien is an associate editor for the AICPA. She writes and oversees content for the *CPA Insider* and *The EDGE* e-newsletters. She has a Ph.D. in English from the University of North Carolina at Chapel Hill and is co-author of the book *Women Lead: Career Perspectives From Workplace Leaders*.

■ Staying Focused at the Top: One Expert's Perspective on Issues Facing Today's Boards of Directors page 72

Sabine Vollmer is a *JofA* senior editor. She oversees coverage of international accounting issues and is responsible for the *Global CPA Report*. She has more than 20 years of journalism experience, including more than 10 years as a business writer. She has also worked in Germany and Japan.

■ Change Is Coming: Accounting Method Changes Under the Tangible Property Regulations page 76

Pamela Schuneman, CPA, MBA, is a tax manager for Kerkering, Barberio & Co. in Sarasota, Fla. She received her B.A. from the University of Florida and her MBA from Oklahoma City University.

■ 10 Situations When a CPA Should Call "Timeout" page 84

Thomas D. Sykes, J.D., is a partner at Gould & Ratner LLP in Chicago. He has extensive experience in tax controversies, including matters in which he represented the IRS and other matters in which he represented private parties opposing the IRS. His background includes a stint as a federal prosecutor.

Get Personal.

"I love your products; my clients have really said WOW!"

Introducing Lockhart's New *Personal Touch Presentations*

Some communications to prospects and clients merit going the extra mile. Whether it's an expression of gratitude, or an invitation to an upcoming event, we can help you convey an impression of professionalism that is unmatched!

THE LOCKHART GUARANTEE
You risk nothing! 100% unconditional guarantee.

CALL 800-966-2709
to request **Special Offer #J4515** or
VISIT www.PresentationFolders.com

LOCKHART
Brand Your Image of Excellence™

www.PresentationFolders.com (800) 966-2709

News Digest

Visit journalofaccountancy.com for news updated daily.

AUDITING

New standards issued by the International Auditing and Assurance Standards Board (IAASB) are designed to change how auditors communicate about their work in their reports.

Auditors of listed entities' financial statements will be required to communicate "key audit matters" in auditor's reports, according to the standards, available at tinyurl.com/lry4m74. The key audit matters will be those that the auditor views as most significant, with an explanation of how they were addressed in the audit.

The IAASB also has increased auditors' focus on going-concern matters and added more transparency in the auditor's report about the work the auditor performs.

The new standards will be effective for audits of financial statements for periods ending on or after Dec. 15, 2016.

The AICPA Auditing Standards Board (ASB) issued four auditing interpretations to address some of the effects of accounting standards on going concern.

FASB in August issued Accounting Standards Update (ASU) No. 2014-15, *Presentation of Financial Statements—Going Concern (Subtopic 205-40): Disclosure of Uncertainties About an Entity's Ability to Continue as a Going Concern*. The standard establishes management's responsibility to evaluate whether there is substantial doubt about an organization's ability to continue as a going concern and to provide related footnote disclosures.

Going-concern responsibilities for state and local government preparers, meanwhile, were incorporated into GASB's standards in 2009 with the issuance of GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*.

The new auditing interpretations to Statement on Auditing Standards No. 126, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern (Redrafted)* (AICPA, *Professional Standards*, AU-C Section 570), are the result of a short-term initiative by the ASB to address some of the effects of these accounting standards.

The interpretations, available at tinyurl.com/n5k3366, address:

- The definition of "substantial doubt about an entity's ability to continue as a going concern."
- The definition of reasonable period of time.
- Interim financial information.
- Consideration of financial statements' effects.

The ASB expects to undertake a more comprehensive project in the longer term to align AU-C Section 570 with the various accounting and auditing standards.

The PCAOB issued a reminder to auditors of brokers and dealers that the board's new auditing standards differ in certain respects from previous generally accepted auditing standards that applied to these audits.

PCAOB standards took effect for audits of broker-dealer annual reports for fiscal years ended on or after June 1, 2014.

HIGHLIGHTS

A proposal FASB expects to issue for public comment in mid-April is aimed at enhancing the usefulness of the financial statements of not-for-profit organizations.

FASB voted 5–2 to issue a proposed Accounting Standards Update, which would propose changes to:

- The current net asset classification scheme.
- The required information about an organization's liquidity, financial performance, and cash flows.

The board will propose reducing the number of net asset classes presented from three to two. The new classification would convey net assets with donor-imposed restrictions and without donor-imposed restrictions.

Under the proposal, all not-for-profits also would be required to report expenses both by their nature and by function.

"I think the benefits justify the costs," FASB member Tom Linsmeier said during the meeting. "I think that we're providing an opportunity for the not-for-profit community to tell their story far better."

FASB Chairman Russell Golden, who cast one of the dissenting votes, said some aspects of the proposal will reduce costs, promote simplification, and provide additional benefits to the not-for-profit community. But he is concerned that the project may increase complexity in the system overall because some of the tentative decisions address conditions only for not-for-profits on issues that also apply outside the not-for-profit sector.

"We should have thought holistically about the cash flow statement, holistically about the operating performance measure, and holistically about the classifications within the cash flow statement," Golden said.

In its report, available at tinyurl.com/pyksz6k, the PCAOB said the first five inspections of broker-dealer audits conducted under the new standards showed deficiencies in the auditors' application of the standards.

The PCAOB advised that auditors who desire clarification of the standards can email the PCAOB at standards@pcaobus.org or review the board's staff guidance on the issue, available at tinyurl.com/n2e3snl, which was published in June.

EMPLOYEE BENEFITS

■ The AICPA issued new nonauthoritative guidance about how and when nongovernmental employee benefit plans and nongovernmental sponsoring entities should consider, for financial reporting purposes, newly updated mortality tables if their financial statements have not yet been issued when the updated tables are published.

The Society of Actuaries' Retirement Plans Experience Committee released in October 2014 its RP-2014 Mortality Tables Report, available at tinyurl.com/n8x265a, which includes new mortality tables developed for use by pension plans.

Question and Answer (Q&A) Section 3700.01 (AICPA *Technical Questions and Answers*), available at tinyurl.com/3so64k8, explains that the plans and sponsoring entities should consider the specific requirements of GAAP, which requires the use of a mortality assumption that reflects the best estimate of the plan's future experience for purposes of estimating the plan's obligation as of the current measurement date. The Q&A relates to both employer and plan pension obligations.

FINANCIAL REPORTING

■ A standard issued by FASB is designed to improve targeted areas of consolidation guidance for certain legal entities and make financial statements more relevant for users.

The guidance applies to legal entities such as:

- Limited partnerships.
- Limited liability corporations.
- Securitization structures (collateralized debt obligations, collateralized loan obligations, and mortgage-backed security transactions).

Accounting Standards Update No. 2015-02, *Consolidation (Topic 810): Amendments to the Consolidation Analysis*, is intended for reporting organizations (public and private companies and not-for-profits) that are required to evaluate whether they should consolidate these legal entities.

The standard, available at tinyurl.com/nsx3mse, reduces the number of consolidation models from four to two, simplifies FASB's Accounting Standards Codification, and changes current GAAP by:

- Placing more emphasis on risk of loss when determining a controlling financial interest. A reporting organization may no longer have to consolidate a legal entity in certain circumstances based solely on its fee arrangement, when certain criteria are met.
- Reducing the frequency of the application of related-party guidance when determining a controlling financial interest in a variable-interest entity (VIE).
- Changing consolidation conclusions for public and private companies in several industries that typically make use of limited partnerships or VIEs.

The standard takes effect for public companies for periods beginning after Dec. 15, 2015. For private companies and not-for-profits, the standard takes effect for annual periods beginning after Dec. 15, 2016, and for interim periods beginning after Dec. 15, 2017. Early adoption is permitted, including adoption in interim periods.

■ FASB proposed two standards changes that are designed to reduce complexity in accounting for income taxes. The proposal is available at tinyurl.com/pff24st.

For public business entities, the proposed changes would take effect for annual periods, including interim periods within those annual periods, beginning after Dec. 15, 2016. Early adoption would not be permitted for public business entities.

For all other entities, the proposed amendments would take effect for annual periods beginning after Dec. 15, 2017, and interim periods in annual periods beginning after Dec. 15, 2018. Early adoption would be permitted, but not before the effective date for public business entities.

FASB is seeking comments on both items by May 29. Comments can be made at FASB's website at tinyurl.com/oxs7tm8.

The first item the board is proposing is elimination of the exception in ASC Subtopic 740-10, *Recognition*, that prohibits recognizing current and deferred income tax consequences for an intra-entity asset transfer until the asset or assets have been sold to an outside party.

This proposal would require that an entity recognize the current and deferred income tax consequences of an intra-entity asset transfer when the transfer occurs. The proposal would align GAAP with IFRS guidance on the recognition of income tax consequences of intra-entity asset transfers.

Entities would be required to apply the proposed amendments on a modified retrospective basis. A cumulative-effect adjustment would be made directly to retained earnings as of the beginning of the period of adoption for the recognition of the income tax consequences of intra-entity asset transfers occurring before the effective date.

At transition, required disclosures would include the nature of and reason for the change in accounting principle, and quantitative information about the effects of the change in accounting.

The other change FASB is proposing would affect only entities that present a classified statement of financial position. To simplify the presentation of deferred income taxes, FASB is proposing that for such entities, deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. The proposal would not change the current requirement that deferred tax liabilities and assets of a tax-paying component of an entity be offset and presented as a single account.

The proposal would align GAAP with IFRS in the presentation of deferred income tax assets and liabilities.

Entities would be required to apply the proposed balance sheet changes prospectively to all deferred income tax liabilities and assets. At transition, disclosures would include the nature of and reason for the change in accounting principle and a statement that prior periods were not restated.

■ FASB issued a proposal that is designed to provide more useful information to financial statement users about hybrid financial instruments that contain bifurcated embedded derivatives.

The amendments in the proposal, available at tinyurl.com/nqe2q5m, would require an entity to disclose information in the notes to financial statements that links each bifurcated embedded derivative to its related host contract.

Under current GAAP, ASC Topic 815, *Derivatives and Hedging*, does not require an entity to provide information that explicitly links bifurcated embedded derivatives with their related host contracts. As a result, financial statement users often are unable to trace these derivatives to their host contracts.

The proposed amendments would apply to all reporting entities that issue or invest in hybrid financial instruments with embedded derivatives that are separated from their host contracts and accounted for as derivative instruments.

Under the proposal, an entity would be required to disclose in both interim and annual reporting periods the carrying amount, measurement attribute, and line item within the balance sheet and the income statement in which each bifurcated embedded derivative and its related host contract are presented.

The amendments would be applied prospectively to hybrid financial instruments with bifurcated embedded derivatives that existed as of the beginning of the fiscal year for which the proposed amendments are effective.

The effective date will be determined by the board after hearing stakeholders' comments, which can be submitted through April 30 at FASB's website at tinyurl.com/ooeuooa. The proposal is titled Proposed Accounting Standards Update, *Derivatives and Hedging (Topic 815): Disclosures About Hybrid Financial Instruments With Bifurcated Embedded Derivatives*.

■ Three years after its inception, the Private Company Council (PCC) will undergo a public evaluation of the job it is doing in looking out for the interests of private companies in accounting standards.

Ripple Effect for Falling Energy Prices

More than half of CPA decision-makers said declines in oil and energy prices had at least a somewhat favorable impact on prices at their businesses early this year.

- Strongly favorable ... 8%
- Somewhat favorable ... 47%
- Neutral ... 28%
- Somewhat unfavorable ... 6%
- Strongly unfavorable ... 6%
- Not sure ... 2%
- Other ... 3%

Source: *AICPA Business and Industry Economic Outlook Survey, 1Q 2015*, **tinyurl.com/93a9s7n.**

ILLUSTRATION BY RASSLAVA/ISTOCK

The board of trustees of the Financial Accounting Foundation (FAF) issued a request for comment, with responses to be evaluated in its assessment of the PCC's effectiveness, accomplishments, and future role in setting standards for private companies. The request for comment is available at tinyurl.com/kn5ssnn.

When the trustees created the PCC in May 2012, they stated that they would conduct an assessment of the council following its first three years of operation.

The PCC has established a number of GAAP alternatives for private companies that are intended to decrease costs and complexity without sacrificing usefulness to users of financial statements. To date, PCC-initiated actions have resulted in four Accounting Standards Updates containing GAAP alternatives for private companies.

In addition, the PCC has given FASB feedback on private company perspectives during the board's development of standards.

Written comments can be emailed to PCCReview@f-a-f.org by May 11.

■ FASB's staff will work with AICPA staff to clarify guidance regarding uncertain tax positions.

In May 2010, the AICPA Financial Reporting Executive Committee (FinREC) issued a technical practice aid, TPA 5250-15, which refers to Accounting Standards Update (ASU) No. 2009-06, *Income Taxes (Topic 740): Implementation Guidance on Accounting for Uncertainty in Income Taxes and Disclosure Amendments for Nonpublic Entities*.

FinREC's TPA said that nonpublic entities are required to make certain disclosures regardless of whether the entities have uncertain tax positions (also known as unrecognized tax benefits).

PCC and FASB members said at a PCC meeting that the guidance in the TPA should change and that such disclosures are necessary only if an entity has uncertain tax positions.

The AICPA staff is working with FASB's staff to determine the best way to proceed in addressing the issue.

In the basis for conclusions section of the ASU, FASB concluded that no disclosure would be required if management determines there are no unrecognized tax benefits to record. FASB concluded that requiring such a disclosure would set a precedent for requiring a similar disclosure for all accounting standards for which there was no material effect on the financial statements. But the basis for conclusions is not part of the FASB Accounting Standards Codification.

■ The PCC has decided to review whether it should provide more flexibility to private companies in election and use of some of the GAAP alternatives it has created.

PCC member Larry Weinstock said more flexibility may be necessary to allow private companies to take advantage of:

- ASU No. 2014-07, *Consolidation (Topic 810): Applying Variable Interest Entities Guidance to Common Control Leasing Arrangements*; and
- ASU No. 2014-02, *Intangibles—Goodwill and Other (Topic 350): Accounting for Goodwill*.

Current guidance suggests that private companies that do not elect an alternative the first time it's available are not allowed to elect it in the future, unless they can establish preferability, as defined in ASC Topic 250, *Accounting Changes and Error Corrections*, according to Weinstock.

Weinstock said private companies should be able to elect to use the alternatives in the future if their circumstances change. The PCC asked FASB's staff to undertake research that could provide more flexibility.

■ The IASB issued a proposal intended to clarify how entities classify debt, particularly when it is coming up for renewal.

The proposal is designed to improve presentation in financial statements by clarifying the criteria for the classification of a liability as either "current" or "non-current." The proposed amendments would accomplish this by:

- Clarifying that the classification of a liability as either "current" or "non-current" is based on the entity's rights at the end of the reporting period, and
- Clearly describing the link between the settlement of the liability and the outflow of resources from the entity.

GASB defines fair value as the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction at the measurement date.

The proposed amendments are contained in the exposure draft *Classification of Liabilities* (Proposed Amendments to IAS 1), which is available at tinyurl.com/px5vv2o. The IASB is seeking comments, which can be made at tinyurl.com/n348ony by June 10.

GOVERNMENT

■ GASB provides a definition of fair value and describes how it should be measured in new accounting and financial reporting guidance for state and local governments.

Under GASB Statement No. 72, *Fair Value Measurement and Application*, fair value is defined as the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date.

The statement, available at tinyurl.com/nkzled9, also describes which assets and liabilities should be measured at fair value and what information about fair value should be disclosed in the financial statements. The guidance defines investments —which generally are measured at fair value—as securities or other assets that governments hold primarily for the purpose of income or profit and the present service capacity of which are based solely on their ability to generate cash or to be sold to generate cash.

State and local governments previously have been required to disclose how they arrived at their measures of fair value, if their measurement was not based on quoted market prices. Statement No. 72 expands those disclosures to categorize fair values according to their relative reliability and to describe positions held in many alternative investments.

MANAGEMENT ACCOUNTING

■ A majority of senior finance executives say that risk management is not an important strategic tool at their organizations, and most have not articulated their risk appetite in pursuit of objectives, according to a new survey.

Additionally, fewer than half of respondents believe that existing risk exposures are considered when evaluating new strategic initiatives. That's according to a survey of 1,093 CFO-level AICPA members.

Just 25% of companies have a formal enterprise risk management (ERM) process in place, according to results of the survey, which was conducted by the ERM Initiative at North Carolina State University. A survey report is available at tinyurl.com/maf7yvx.

Companies are not as likely now, compared with a few years ago, to appoint a chief risk officer, one of several examples where ERM practices appear to have gone stagnant. In 2012, 38% of respondents said their companies had chief risk officers. In the most recent survey, conducted last fall, that number had fallen to 32%. The percentage is still higher than in the first edition of the survey in 2009, when 18% of respondents said their companies had a chief risk officer.

■ During the recession, many companies were hesitant to buy new computer hardware or upgrade software. For some, it was hard to justify the investment when cost-cutting was the norm and aging equipment was still working.

But an improvement in economic conditions, the need to provide customers better technology, and heightened concern about cybersecurity have led to a steady increase in information technology investment over the past few years.

CPA decision-makers have carried a positive outlook on IT spending in recent quarters, according to the Business & Industry Economic Outlook Survey for the first quarter of 2015 released by the AICPA. Survey results are available at tinyurl.com/93a9s7n.

Although IT spending projections declined slightly in the most recent outlook, it is one of four survey indicators that remained above 75. A reading above 50 indicates a generally positive outlook.

Meanwhile, more CPA decision-makers are optimistic about the U.S. economy than any time in the past 10 years, according to the outlook. While the momentum of executives' optimism slowed overall in the most recent quarter, respondents remain positive about revenue and profit projections, especially when compared with first-quarter numbers in previous years. And that, in part, is emboldening companies to spend more on IT.

■ Rules proposed by the SEC would require certain companies to disclose their hedging policies for directors and employees.

Under the proposal, companies would be required to disclose whether directors, officers, and other employees are permitted to hedge or offset any decrease in the market value of equity securities granted by the company.

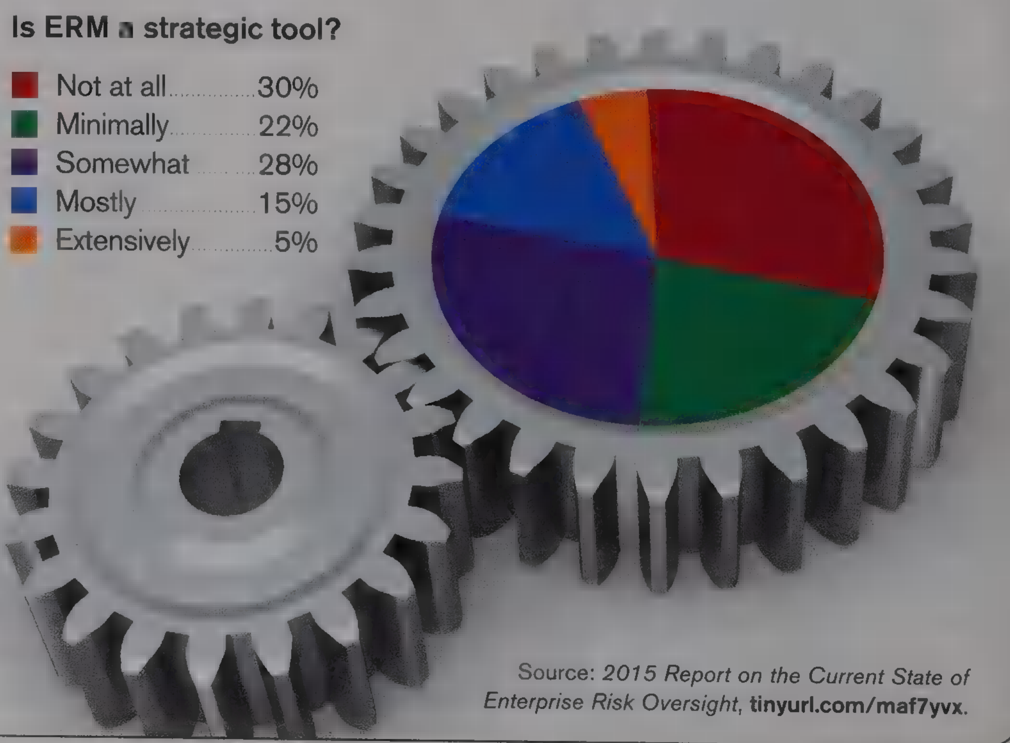
The proposed rules, available at tinyurl.com/mafb4ny, would apply to securities granted as compensation or held —directly or indirectly—by employees or directors.

The disclosures would be required in proxy statements and information statements for the election of directors. The proposed rules would apply to companies subject to the federal proxy rules, including:

- Smaller reporting companies.
- Emerging growth companies.
- Business development companies.

ERM-Strategy Link Lacking

More than half of respondents to a recent survey said their organization's risk management is either minimally or not at all a proprietary strategic tool that provides a unique competitive advantage. The survey was conducted by the ERM Initiative at North Carolina State University on behalf of the AICPA Business, Industry & Government team.



Source: *2015 Report on the Current State of Enterprise Risk Oversight*, **tinyurl.com/maf7yvx.**

- Registered closed-end investment companies with shares listed and registered on a national securities exchange.

Disclosure would apply to equity securities of the company, its parent, subsidiary, or any subsidiary of any parent of the company that is registered under Section 12 of the Exchange Act.

The proposed rules were mandated by the Dodd-Frank Wall Street Reform and Consumer Protection Act, P.L. 111-203.

The SEC will seek public comment on the proposed rule amendments for 60 days following their publication in the *Federal Register*. Comments can be made at the SEC's website at tinyurl.com/k4u7ydb.

- The AICPA Conflict Minerals Task Force has developed new questions and answers (Q&As .14–.15) to provide nonauthoritative guidance addressing matters that practitioners performing independent private-sector audit engagements of conflict minerals reports may wish to cover in management representation letters and practitioner responsibility with respect to internal controls.

The Q&As, available at tinyurl.com/mluexo7, relate to representations that a practitioner might obtain from management in an engagement to perform an independent private-sector audit of a conflict minerals report, and the practitioner's responsibility with respect to gaining an understanding of and testing internal controls in performing an independent private-sector audit.

In addition, the AICPA resource describing conflict minerals report attributes that facilitate an independent private-sector audit has been updated based on conflict minerals reports filed, and to reflect recent SEC guidance. The resource is available at tinyurl.com/ls69amm.

More information, including previously issued Q&As .01 to .13, is available on the AICPA Conflict Minerals Resources webpage at tinyurl.com/cdgwk9p.

NOT-FOR-PROFIT

- The AICPA Not-for-Profit Entities Expert Panel developed nonauthoritative guidance in response to an accounting alternative for private companies developed by the PCC.

The guidance is contained in Q&A Section 6140.26 of the AICPA *Technical Questions and Answers* at tinyurl.com/3so64k8.

In January 2014, FASB issued a standard that originated with the PCC and exempts private companies from the requirement to annually perform impairment testing for goodwill subsequent to a business combination.

The standard, ASU No. 2014-02, *Intangibles—Goodwill and Other (Topic 350): Accounting for Goodwill (a consensus of the Private Company Council)*, provides an alternative for private companies, allowing them to amortize goodwill on a straight-line basis over 10 years, or less than 10 years if the entity can demonstrate that another useful life is appropriate.

The guidance developed by the Not-for-Profit Entities Expert Panel is intended for any not-for-profit entity that has a for-profit subsidiary that it consolidates under GAAP. The for-profit subsidiary could adopt the accounting alternative in ASU No. 2014-02 in its stand-alone financial statements, according to the expert panel.

But the for-profit subsidiary is not permitted to use the amortization accounting alternative in the consolidated financial statements, according to the expert panel. This is because the reporting entity is the consolidated not-for-profit entity, which is not currently permitted to adopt the accounting alternative.

DRAFTS OUTSTANDING

- FASB

Two Proposed Accounting Standards Updates, *Income Taxes (Topic 740): I. Intra-Entity Asset Transfers* and *II. Balance Sheet Classification of Deferred Taxes*. Comment deadline: May 29. ED available at tinyurl.com/pff24st.

Proposed Accounting Standards Update, *Derivatives and Hedging (Topic 815): Disclosures About Hybrid Financial Instruments With Bifurcated Embedded Derivatives*. Comment deadline: April 30. ED available at tinyurl.com/nqe2q5m.

- IFAC

Proposed Changes to Part C of the Code Addressing Presentation of Information and Pressure to Breach the Fundamental Principles. Comment deadline: April 15. ED available at tinyurl.com/n7zqazx.

Proposed International Standards on Auditing (ISAs), ISA 800 (Revised) and ISA 805 (Revised). Comment deadline: April 22. ED available at tinyurl.com/k7rvxq7.

- PEEC (AICPA)

Firm Merger and Acquisitions Proposed Interpretation, AICPA Professional Ethics Division. Comment deadline: May 15. ED available at tinyurl.com/o9tnh6q.

Proposed Revised "Affiliate" Definition. Comment deadline: May 18. ED available at tinyurl.com/pm36xdh. (Expected to be released April 16.)

CORRECTIONS

- In the February 2015 *JofA*, a sidebar in the Professional Liability Spotlight column, "All CPAs Should Be Concerned About Going Concern," page 20, misstated the effective date for SSARS No. 21, *Statement on Standards for Accounting and Review Services: Clarification and Recodification*. It is effective for periods ending on or after Dec. 15, 2015. The article also misstated the effective date for Accounting Standards Update No. 2014-15, *Presentation of Financial Statements—Going Concern (Subtopic 205-40): Disclosure of Uncertainties About an Entity's Ability to Continue as a Going Concern*. This standard is effective for the annual period ending after Dec. 15, 2016, and for annual periods and interim periods thereafter.
- In the February 2015 *JofA*, in the article "Lost and Found: Booking Liabilities and Breakage Income for Unredeemed Gift Cards," page 32, a principle of revenue recognition was misstated. The article should have read that under the new revenue recognition standard, revenue is recognized when or as an entity satisfies a performance obligation by transferring a promised good or service to a customer. The article instead cited a principle from current GAAP that states that revenue can't be recognized until it is earned and realizable. ❖

Revenue Recognition Revisited

One-year delay and other clarifications proposed in convergence project.

by Ken Tysiac

A reexamination of new revenue recognition rules has led to tinkering with the standard that is considered the biggest achievement of the convergence efforts of FASB and the International Accounting Standards Board (IASB).

The most significant potential change came April 1, when FASB agreed to propose delaying the effective date of the standard by one year. The board voted to propose having the standard take effect for reporting periods beginning after Dec. 15, 2017, for public companies that use U.S. GAAP for their financial statements.

Private companies would have an additional year past the public company effective date to implement the standard. Early adoption would be allowed as of the original effective date for public companies (reporting periods beginning after Dec. 15, 2016). Public companies that adopt early would be required to do so on an annual and interim basis. Private companies that adopt early could do so on an annual basis, and subsequently for annual and interim periods.

FASB directed its staff to prepare a formal written ballot for a proposal seeking feedback in a 30-day comment period. The IASB also was expected to consider later in April a possible delay in its effective date.

Financial statement preparers who said they didn't have enough time for transition raised the possibility of delaying the effective date shortly after the standard was released in May of last year.

FASB and the IASB also have voted to propose clarifying certain areas of the standard and implementation guidance that have caused the potential for diversity in practice.

The proposed clarifications hold the potential for divergence in the standard because the boards came to different conclusions on some of the clarifying changes and revisions they plan to propose. The IASB generally was less open to changes than FASB and agreed to propose more limited clarifications.

In addition to the change in the effective date, the boards plan to propose changes including:

- **Licenses of intellectual property:** FASB and the IASB voted to propose revisions to the implementation guidance about determining the nature of the entity's promise in granting a license of intellectual property.
- **Identifying performance obligations:** FASB voted to propose amendments to address implementation issues related to identifying promised goods or services that would be subject to the separation guidance; application of the distinct guidance; and accounting for shipping and handling activities, as well as making some technical corrections.
- **Practical expedients upon transition—contract modifications and completed contracts:** FASB and the IASB voted to propose a "use of hindsight" expedient.
- **Sales tax presentation—gross versus net:** FASB agreed to add a project to its technical agenda to propose revisions to the standard that would permit a practical expedient for presentation of sales taxes. FASB would propose the practical expedient to allow an election for net reporting for all in-scope sales taxes with disclosure of the policy.
- **Revenue recognition—noncash consideration:** FASB voted to propose clarifying the guidance for determining the measurement date for noncash consideration, explaining that noncash consideration is measured at contract inception.

  In addition, FASB voted to propose applying the constraint on variable consideration only to transactions in which the fair value of noncash consideration might vary for reasons other than the form of the consideration.
- **Collectibility—accounting for cash received:** FASB voted to improve the articulation of the guidance in ASC Paragraph 606-10-25-7 of the standard and improve the articulation of the guidance for the collectibility threshold in Step 1. ❖

Ken Tysiac is a JofA editorial director. To comment on this article or to suggest an idea for another article, contact him at ktysiac@aicpa.org or 919-402-2112.

Cathy Engelbert, CPA, CEO of Deloitte LLP

First woman to lead a Big Four firm in the U.S. discusses the path she took.

Cathy Engelbert, CPA, became the first female CEO of a Big Four audit, accounting, and consulting firm in the United States on March 11 when she took the helm of Deloitte LLP. In an interview, she told the *JofA* of a time early in her career when she nearly decided to leave public accounting, and she shared her thoughts on what it takes to achieve career success. Here is an edited version of the discussion:

"I was a senior manager, pregnant with my first child. I would have been up for partner that year. I was trying to figure out what my career would look like in the future and trying to figure out if I could balance my career and parenting at Deloitte, or would I balance it in the corporate world? I did consider a very large corporate job … something that was attractive. When it came down to it, I thought about culture, I thought about Deloitte and, quite frankly, the women's initiative that started in the '90s when this was all happening, and I wanted to continue to be a part of that. And it was the best decision, quite frankly, I ever made. …"

"Take risks in your career, do something different so you build your capabilities, build your followership, build your leadership skills, and have passion for what you do. … It's all about the skill set that you might want to build. At one point I decided to go to our national office, so I moved from Philadelphia to Connecticut. At another point I decided I had built, through working with FASB and the AICPA when I was in our national office, a niche with financial instruments. So I went into our consulting business for four years. I think it's all about what capabilities you want to build. Some of our people do global assignments. Some of our people, again, cross over into our different businesses. Some want to serve in tax versus audit. Some want to do both. I think it's all about building a broader capability so you are viewed as a leader and you have that followership going forward as you go up the ranks." ❖

(Read more about Cathy Engelbert and her vision for Deloitte LLP at journalofaccountancy.com/engelbert.)

PHOTO COURTESY OF DELOITTE LLP

Professional Liability SPOTLIGHT

The Importance of Tax Quality Control

by Deborah K. Rood, CPA

Quality control (QC) is of utmost importance when delivering professional services, including tax planning and compliance services. In 2014, 67% of the claims in the AICPA Professional Liability Insurance Program were related to tax planning and compliance services. Unfortunately, almost all of these claims included a failure in quality control. When a professional liability claim is asserted and QC breakdowns have occurred, defense counsel's ability to negotiate a favorable result for the CPA may be compromised.

Rather than several claim stories with seemingly innocent breakdowns in QC, what follows is a combination of real claim scenarios resulting in a disastrous QC collapse. While this scenario may seem unrealistic, any one of these QC breakdowns could compromise the defense of a professional liability claim.

THE NEW PRIVATE-EQUITY CLIENT

The managing partner of XYZ CPAs Inc. said it was the firm's highest priority to obtain new clients in private equity by year end. As a result, when an attorney with whom the firm regularly worked mentioned that one of his private-equity clients operating as a partnership needed tax compliance services, the firm bypassed its customary client and engagement acceptance procedures to obtain the desired business. The firm agreed to prepare the tax returns but failed to issue an engagement letter.

Had the firm followed its customary client and engagement acceptance procedures, it may have discovered that the fund organizer was a convicted felon who previously operated a Ponzi scheme. In addition, the firm may have questioned why a small firm in a neighboring state was performing the fund's audit instead of a specialized firm. Routine client acceptance procedures also may have revealed that the client's CFO was the husband of one of XYZ's audit partners, representing a potential conflict of interest.

The QC problems related to this engagement continued to accumulate. The tax partner was new to XYZ but had worked with the managing partner 20 years before. Based on this relationship, the firm did not confirm the new tax partner's licensure or previous experience. Notably, she had been disciplined by the state board of accountancy due to a conflict of interest on another tax return.

The client demanded the Schedules K-1 be issued to investors by April 10, despite incomplete information regarding Schedules K-1 from the company's investments. The "experienced" tax partner explained that she regularly used estimates and adjusted for final numbers on the following year's return at her old firm so Schedules K-1 could be issued on a timely basis.

The only staff member available to prepare the fund's tax returns was in his second tax season and had primarily worked with C corporations. Since he lacked experience in partnership filings, the staff member did not allocate income based on the partnership agreement. The staff member relied on the computations generated by the tax preparation software. The tax partner's review consisted of confirming the book-income-to-taxable-income reconciliation and discussing the calculation with the client. Moreover, the new tax partner was not supervised on any engagements, including the high-risk returns relating to this matter. The return was finalized and electronically filed—without a Form 8879-PE, *IRS* e-file *Signature Authorization for Form 1065*.

This series of errors continued for the following six years.

Approximately one month after the firm prepared its seventh tax return for the client, federal agents raided the client's office. The client was operating another Ponzi scheme. Soon after the raid, investors began filing professional liability claims against the CPA firm, alleging the firm should have discovered the fraud. In addition, investors alleged that the firm improperly allocated taxable income to them, causing them to overpay tax, incur additional professional fees, and, in some years, lose the ability to obtain a refund because the statute of limitation had expired.

ELEMENTS OF A STRONG QC SYSTEM

While QC may be difficult to get excited about, its importance cannot be overstated. As a result, tax professionals should consider the following to create a strong QC system:

Circular 230

In June 2014, Treasury Circular 230, *Regulations Governing Practice Before the Internal Revenue Service* (31 C.F.R. Part 10), which addresses practice before the IRS, was revised. Section 10.36, *Procedures to Ensure Compliance*, now requires the person or persons responsible for overseeing a firm's tax practice to take reasonable steps to ensure the firm has adequate procedures in effect to comply with Circular 230. This individual will be subject to discipline for failure to comply with the requirements if, through willfulness, recklessness, or gross incompetence, the individual does not take reasonable steps to ensure the firm has adequate procedures in place to comply with Section 10.36 and a firm

member engages in a pattern of failure to comply with this part.

Written tax QC materials represent one of the best tools for complying with Circular 230, Section 10.36.

Tax QC Materials

QC materials may consist of (1) a tax QC manual; (2) tax policies and procedures; and (3) voluntary tax practice review.

The tax QC manual and tax policies and procedures should be written, updated regularly, accessible, and communicated to the tax practice through training.

The QC manual provides guidance in developing the tax group the firm desires. It should provide a foundation upon which all decisions for the tax group are based and be referenced when the tax group implements policies and procedures. The AICPA *Tax Practice Quality Control Guide* is based on the AICPA Statements on Quality Control Standards and contains the following six elements of QC: (1) leadership; (2) ethical requirements; (3) client acceptance and continuance; (4) human resources; (5) engagement performance; and (6) monitoring.

Policies and Procedures

Unlike a QC manual that is more aspirational, policies and procedures are instructional in nature. Tax policies and procedures should delineate every step in preparing a tax return from receipt of the information to electronic filing. In addition, policies and procedures should address all tax services, including planning, research, and consulting.

Voluntary Tax Practice Review

A voluntary tax practice review is one method to monitor compliance with both a firm's tax QC manual and its practices and procedures. In a two-person firm, one partner may review a select set of returns the other partner prepared and vice versa. Some firms may wish to work with a peer firm and review each other's practices. This protocol exposes both firms to different techniques for accomplishing the same tasks, some of which may be an improvement. In a large, multioffice firm, a QC team may visit various offices, selecting returns from each partner to review.

Resources

AICPA Tax Section members have access to the *Tax Practice Quality Control Guide*, which includes sample QC policies for a sole practitioner with limited staff, a firm without a structured tax department, and a firm with a structured tax department. Tax Section members also may access sample engagement letters.

In addition, some professional liability insurers have tax QC manuals and sample engagement letters available to policyholders.

LESSONS LEARNED

In the claim scenario presented above, a QC breakdown occurred at every level. The managing partner set the tone at the top, sending the message that the firm valued new business over quality. The managing partner's highest priority was having a private-equity client by year end, not the "right" client.

While the potential conflict of interest did not contribute to the claim, if it had been identified, steps should have been taken to reduce the potential for it to do so. Human resources for the firm generally verified the information on a new employee's résumé, but those steps were bypassed.

Client acceptance procedures were also not observed. A background investigation of the client's management should have revealed the organizer's history of operating Ponzi schemes and the fact that it selected a small firm without expertise in the client's business to conduct an audit. In addition, an engagement letter was not issued.

The engagement was not performed with professional competence, as required by Circular 230, Section 10.35, *Competence*. The preparer lacked relevant experience and was not adequately supervised. In addition, the new tax partner did not adequately review the return in light of the preparer's inexperience, and the new tax partner's work was not reviewed.

An adequate review of the return should have prevented the tax partner from signing an inaccurate return, which included estimates and improperly allocated income. Finally, the firm did not have adequate procedures to ensure returns were not electronically filed without a signed authorization form.

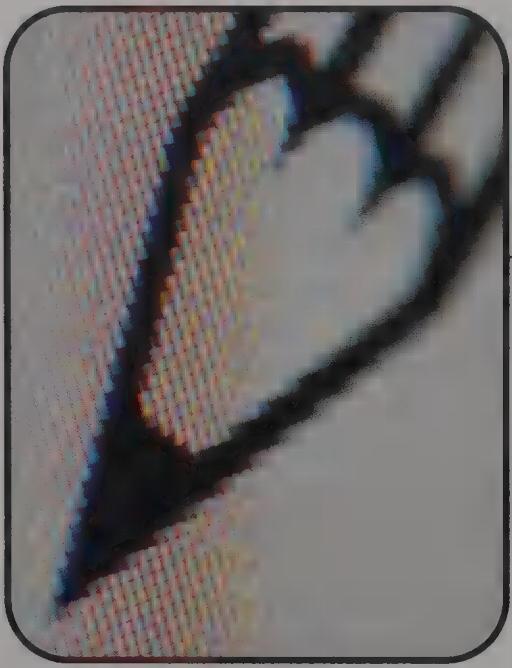
Appropriate monitoring of tax compliance processes may have identified these problems earlier, but the firm did not have a system in place. Firms that emphasize quality over realization are well-positioned in the event of a professional liability claim or investigation by the IRS Office of Professional Responsibility. ❖

***Deborah K. Rood** (deborah.rood@cna.com) is a risk control consulting director at CNA.*

Continental Casualty Co., one of the CNA insurance companies, is the underwriter of the AICPA Professional Liability Insurance Program. Aon Insurance Services, the National Program Administrator for the AICPA Professional Liability Program, is available at 800-221-3023 or visit cpai.com.

This article provides information, rather than advice or opinion. It is accurate to the best of the author's knowledge as of the article date. This article should not be viewed as a substitute for recommendations of a retained professional. Such consultation is recommended in applying this material in any particular factual situations.

Examples are for illustrative purposes only and not intended to establish any standards of care, serve as legal advice, or acknowledge any given factual situation is covered under any CNA insurance policy. The relevant insurance policy provides actual terms, coverages, amounts, conditions, and exclusions for an insured.



Monitoring Fraud Risks in the Supply Chain

Nearly one-third of about 2,600 supply chain professionals said their companies experienced supply chain fraud, waste, or abuse the previous year, but only 40% had a program in place to detect or prevent these issues, according to a 2014 Deloitte poll. Mark Pearson, who works in supply chain forensics for Deloitte, explains how companies can probe one of the top risks—third-party expense categories—and avoid overpaying:

✔ *Track labor unit data in the smallest increments practical.* Fraudulent labor charges include overtime paid for regular time worked and charges for people who are not on the payroll. Individual fraudulent labor charges can add up, especially in a large organization, because more people are involved in incurring, approving, and invoicing labor charges. Signs of potential tampering on paper time sheets include corrections, even if they are initialed; the use of correction fluid; and entries made in a different color of ink on the same day. Verify digital reports with the help of secondary or tertiary records—for example, a payroll master file that lists hire and termination dates of a vendor's employees.

✔ *Ask vendors to account in as much detail as practical for indirect charges and to submit source documentation.* Services resulting in indirect charges include professional and consulting fees and marketing and advertising expenses. These deliverables are often undefined, and it can be difficult to inventory them upon completion or to perform an analysis of the invoiced expenditures after the payment. To find potential overcharges, reconcile a vendor's source documentation for expenses with the vendor's bill. Start with vendors deemed most likely to be problematic. To rank risks of vendors and classes of indirect charges, follow a list of identifiable evaluation criteria, such as where the vendor is domiciled, what the dollar amount of an indirect expense is, or how long a vendor has been providing services. Work from top to bottom of the risk ranking step by step, and use the results to help establish a robust supplier evaluation framework that can be fine-tuned.

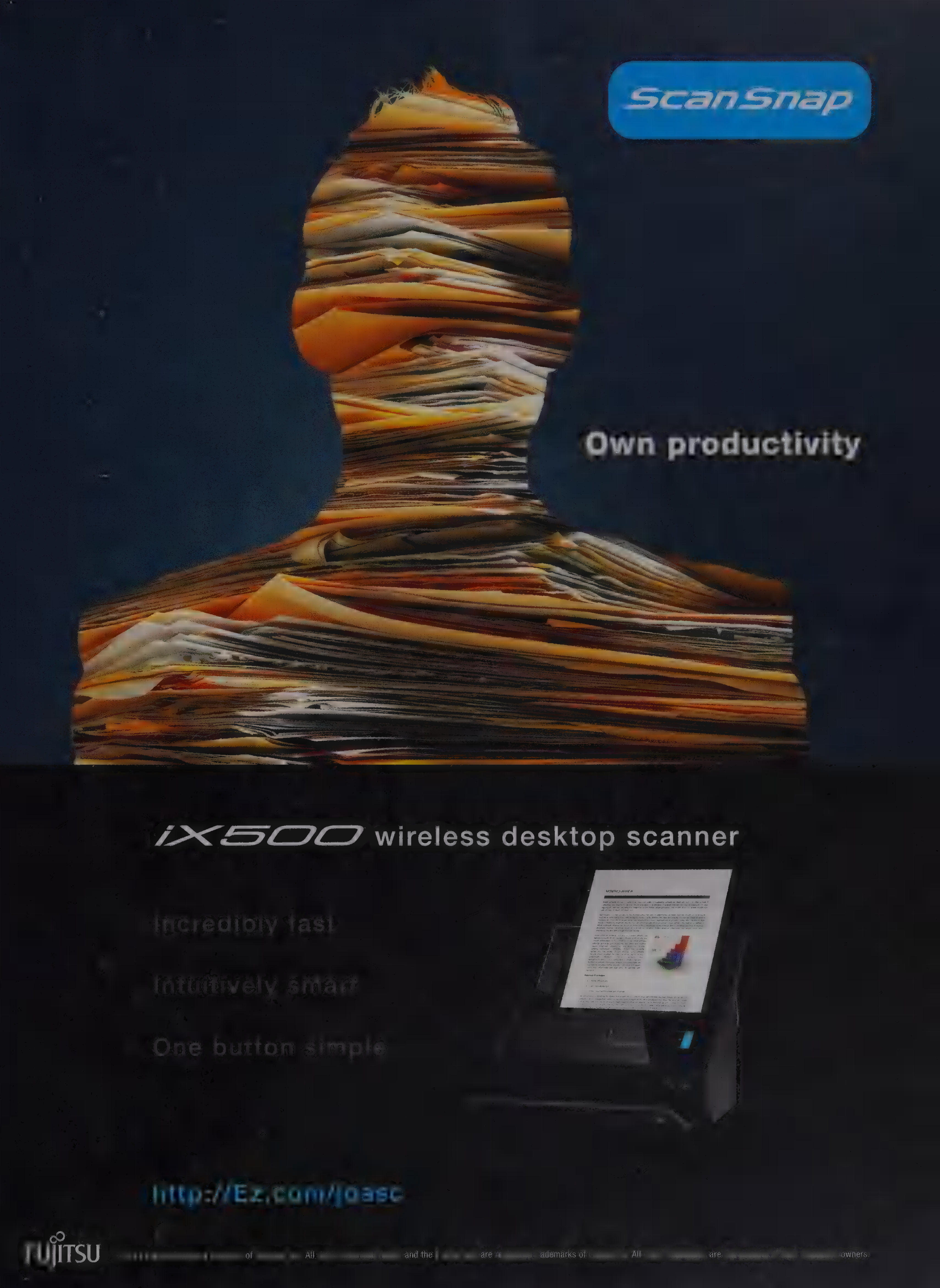
✔ *Understand the formula a vendor uses to allocate charges for services you share with others.* Such charges include a vendor's overhead or fees for storage space in a vendor's warehouse. These charges should be written in the contract. Verify the formula with the vendor and estimate what your share or allocation should be. If your estimate is much lower than the actual bill, take the potential overcharge to the vendor and negotiate a settlement.

✔ *Define clearly what is "cost" in cost-plus contracts with vendors.* This can limit inflated bills under cost-plus agreements, which tend to set charges at a vendor's cost plus a certain percentage. Aim for contract requirements that include documentation to verify defined ingredients of cost, especially with vendors identified as high-risk in the evaluation framework.

✔ *Ask vendors to provide documents that back up their costs from outsourcing part of the job to a subcontractor.* Third-party passthrough charges can add up in a supply chain, especially when subcontractors hold a partial ownership interest or another undisclosed relationship with a primary vendor, creating a potential conflict of interest if the primary vendor doesn't closely monitor the provision of the goods or services.

✔ *Take an especially close look at one-time suppliers, even if they were procured properly.* Use public records to verify the vendors' legitimacy and identify their officers, owners, and registered agents. Also, compare the charges with those of key vendors in the industry.

—By ***Sabine Vollmer*** *(svollmer@aicpa.org), a JofA senior editor.*


ScanSnap
Own productivity
iX500 wireless desktop scanner
Incredibly fast
Intuitively smart
One button simple
http://Ez.com/joasc
FUJITSU

FROM CGMA MAGAZINE
cgmamagazine.org

How to Make Flexible Working Work

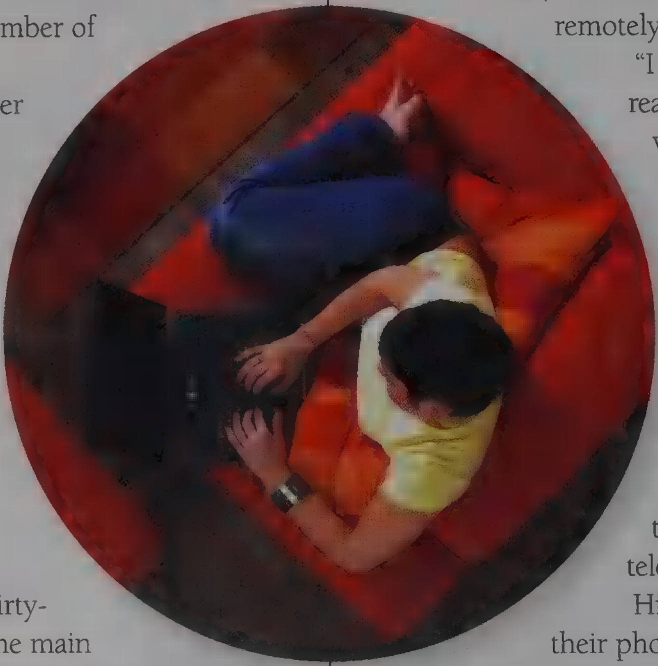
As work/life balance becomes a higher priority for professionals worldwide, more companies are offering staff the opportunity to work remotely.

Research commissioned by staffing firm Accountemps gathered the views of more than 2,100 U.S.-based CFOs and found that 36% said the number of remote working opportunities their organizations offered had increased over the past three years.

Larger companies are leading the way in this regard. Of the respondents who work for organizations with more than 1,000 employees, 68% said the number of opportunities to work remotely had increased. Overall, just 3% of those polled said their firm had scaled back flexible working options.

From the employer's point of view, the potential benefits include higher morale and increased productivity. Thirty-five percent of those polled said that the main selling point of remote working options was that they improved morale and retention rates by promoting greater work/life balance among employees. To capitalize on this, the researchers recommend that companies that have flexible working policies actively promote them to both existing and prospective employees.

For another 28% of respondents, increased productivity when staff members don't have to spend valuable time and energy commuting was paramount. Meanwhile, the potential cost savings from reduced office space requirements topped the list of advantages for 15% of respondents.



Retention Technique

Joel Reichbart, CPA, a regional finance director at Hilton Worldwide, agrees that saving office space by allowing staff to work remotely is an advantage. Yet, remote working has an even more important factor in its favor: "It allows us to keep good people and avoid having them leave for other companies," he said. "So, as long as the work can be done remotely, we benefit by having their talent.

"I believe one of the most important reasons to support telecommuting is that we, as companies, continually ask more and more of our employees," he said. "Due to the fast-paced environments in many companies, employees are [sometimes] expected to be available to answer questions or assist, and many do connect to email, even when on vacation. They're there when we need them, and we should support them when they need to have flexibility, which telecommuting does," Reichbart said.

Hilton requires some employees to keep their phones on at all hours, he said. And while the company does not require that employees keep their mobile devices on when on vacation, many of his team members choose to make themselves available due to the 24-hour nature of the hotel business. "And we are happy to support them when they need to have flexibility for better work/life balance," Reichbart added.

The Value of Trust

Brenda Morris, CPA, CGMA, who has served as CFO of numerous retailers, believes that opportunities to work virtually or with a flexible schedule are best suited to high-trust environments and

PHOTO BY NYUL/ISTOCK

depend on employees' knowing how to manage their roles appropriately.

Establishing accountability and setting clearly defined expectations as to the amount of work to be generated is vital to making remote working a success, said Beth Nilsen, CPA, CGMA, the CFO of FKP Architects in Houston. The manager must then monitor that performance and provide feedback as to whether it meets expectations.

The possibilities that remote workers will feel cut off from their colleagues and find it harder to become familiar with the organizational culture are among the commonly cited drawbacks. Collaboration can also suffer when employees don't spend time at the organization's main site.

"It's hard to fill the void of those unexpected interactions where someone is getting a coffee or water or maybe taking a walk outside on your campus," said Joe Michel, CPA, CGMA, vice president of financial planning and analysis at Constellation Brands.

To bridge this gap, Morris brings key members of her team together in person once a quarter to discuss goals, priorities, and expectations.

The potential for misunderstandings to arise is also higher when colleagues are not based in the same location.

"There's a real danger with email, instant messaging, and such that you're misinterpreted, because the recipient's not hearing your vocal inflection. They're not hearing the delivery of the message," Nilsen said. "So use the telephone to follow up, or as a precursor to, the message that you're about to send, and say, 'Hey, this is what I'm intending. When you get the email, call me back, and let's talk about it, let's walk through it.'"

The original version of this article is available at tinyurl.com/pdbqgqy.

—Jack Hagel, editorial director
CGMA Magazine

VISIT CGMAMAGAZINE.ORG

CGMA Magazine is published in conjunction with the Chartered Global Management Accountant designation, which was created through a partnership between the AICPA and CIMA. The magazine offers news and feature articles focused on elevating and emphasizing management accounting issues.

Also on cgmamagazine.org

Venture Capital Booming Again

Venture capital deal activity in key markets soared in 2014 and is projected to stay strong this year, according to EY trend reports.

Last year, venture capitalists invested a total of $86.7 billion in the United States, Canada, Europe, China, Israel, and India—more than in any year since the height of the dot-com bubble in 2000. EY also reported a rise in initial public offerings and mergers and acquisitions—two traditional exits that allow venture capital investors to reap the rewards from previous deals.

"Improving macroeconomic conditions underpinned investor confidence and fueled an active exit and positive fundraising environment, which supported the increase in global VC activity in 2014," EY's 2014 Venture Capital Review stated.

The full article is available at tinyurl.com/q4htf2p.

Inflation Hurts Global Pay Increases

While pay is projected to rise globally at a higher rate than last year, the increase is overshadowed by inflation in emerging markets that is cutting into real wages.

That's according to management consultancy firm Hay Group's annual salary forecast for 2015, which shows projected global wage growth of 5.4%, compared with 5.2% for 2014.

In Europe, salaries are expected to rise 3.1%, with an inflation-adjusted real wage growth of 1.6%. In the United States, salaries are projected to rise 3%, according to Hay Group's research, but with inflation of 2%, the real wage growth will be 1%.

The full article is available at tinyurl.com/qeu2dhg.

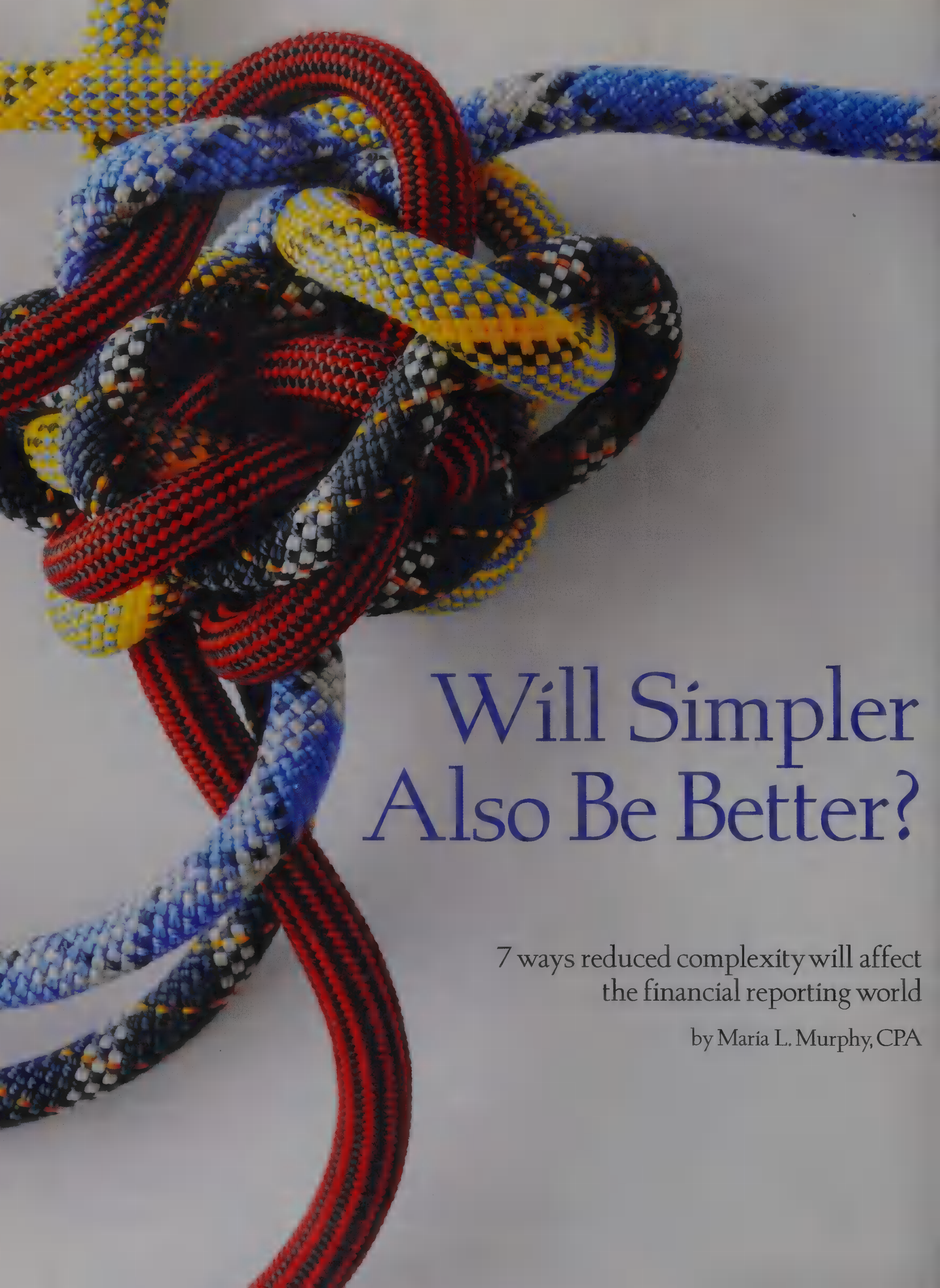
Revenue Recognition Concerns Finance Executives

As FASB and the International Accounting Standards Board continue to discuss proposals for clarifying their new, converged standard on revenue recognition, KPMG has found that a majority of companies (64%) remain unsettled on how they would adopt the standard.

Nearly one-third of the corporate finance executives surveyed by KPMG listed revenue recognition implementation as their top concern for year-end reporting. And the specter of future regulations is a top compliance concern for more than half of the respondents in a poll of 450 financial reporting executives at an annual KPMG symposium in December.

In addition to the nearly 51% who cited future regulation as a compliance concern, 22% cited tax compliance, 16% cited navigation of current regulatory compliance, and 11% cited data infiltration and IT security as top concerns.

The full article is available at tinyurl.com/o6mryzk.



Will Simpler Also Be Better?

7 ways reduced complexity will affect the financial reporting world

by Maria L. Murphy, CPA

It should be no surprise that accounting standards have become more complex over the years. Transactions have become increasingly challenging as new products and services emerge and financial instruments become more complicated in a global economy. Meanwhile, financial statement users' demands for more information in a more timely fashion have caused standard setters to create more disclosure requirements to provide additional transparency. As the amount of information in financial statements has grown, "simplification" and "reducing complexity" have become themes in recent years for regulators and accounting standard setters.

Standard setters and regulators are acutely aware that investors can be confused and preparers overwhelmed by the complexity of accounting standards and by the content and volume of information presented in financial statements. FASB, the International Accounting Standards Board, and the SEC all have ongoing projects related to simplification and reducing disclosure overload (see the sidebar "The Pursuit of Simplification"). The Financial Accounting Foundation's Private Company Council (PCC) has been working to modify GAAP for private companies to reduce unnecessary complexity, and the AICPA's Financial Reporting Framework for Small- and Medium-Sized Entities (FRF for SMEs) has been designed to give preparers a simple, cost-effective way to present non-GAAP financial statements.

"Complexity in accounting is costly for both investors and companies," FASB Chairman Russell Golden said in December at the AICPA Conference on Current SEC and PCAOB Developments. "For investors, overly complex financial reports often obscure important information they need to make sound capital allocation decisions. For preparers, a complicated, unclear, hard-to-understand standard obscures its meaning. And even when an accounting treatment is clear, applying it can be lengthy, difficult, and expensive."

Any relief from complexity can make a difference. Company executives and finance teams often complain about regulatory overload. Sixty percent of CPA executives participating in an AICPA Business and Industry Economic Outlook Survey in 2013 said their current employees had been required to produce more or work more hours over the previous five years as a result of increased regulatory pressures. Simplified accounting standards can help lessen the burden on finance staffs that are busy with reporting, strategic, and compliance responsibilities.

The effort to reduce complexity is not without challenges, though. In some cases, organizational resistance to change can make any significant alteration to application of accounting standards a difficult proposition. The time and cost required to make changes, including implementation efforts and educating staff, management, and boards, may not be perceived to be worth the benefit (see the sidebar "Be Ready to Simplify"). In circumstances where, for instance, FASB has given private companies optional GAAP alternatives, companies and their CPAs may need to clearly explore the benefits and costs of each option. And at least some of the PCC-originated GAAP alternatives for private companies may not be advisable for entities that may go public or be acquired by a public company in the future. In those cases, it may be necessary to undo the election of the alternative, which could more than offset any savings the alternative provided in the first place.

Be Ready to Simplify

As regulators and standard setters work to simplify rules, preparers and auditors can prepare themselves by:

- Being aware of emerging GAAP and financial reporting developments, along with what's going on in private company accounting, including the Financial Reporting Framework for Small- and Medium-Sized Entities (FRF for SMEs), and changes that the Financial Accounting Foundation's Private Company Council is developing.
- Not getting caught by surprise. Watch the timing of pending literature, as certain standards can be adopted early or may affect prior-year financial statements. Early adoption might be risky. Evaluate whether these standards work for your company, and discuss them with primary users of your financial statements in advance.
- Auditors: Becoming knowledgeable and able to discuss the standards with clients.
- Preparers: Taking a fresh look at the notes to financial statements each year to make sure they are still relevant and comply with disclosure requirements. Then assess them from an operational and investor perspective to ensure they are useful and clear.
- Auditors: When reviewing disclosures, thinking not only about the rules but about what FASB intended the rules to disclose.
- Getting more involved with simplification initiatives. Read more. Choose continuing education in these areas. Get involved with professional organizations such as the AICPA. Volunteer to give back to the profession, and it will also help you to stay current on emerging developments in GAAP and financial reporting.

Preparers and auditors in some cases also may find security in following complex disclosure rules to the letter, particularly in a public company setting subject to regulatory review. This may be true even if some of these rules may result in boilerplate disclosures that significantly lengthen financial statements with little benefit to financial statement users.

Users of financial statements also may object to simplification in some cases, although standard setters and regulators are being careful to eliminate complexity in a way that will minimize loss of information that may be meaningful to users. And although FASB has moved forward with GAAP options that are strictly for private companies, there may always be dissenters with concerns that this creates a "two-GAAP" system that promotes simplicity at the expense of comparability.

Despite all these challenges, attempts to reduce complexity continue because many in the financial reporting arena believe the benefits of simplicity can be numerous. Here are seven impacts that experts foresee—or already are experiencing—in the financial reporting realm.

1. Preparers May Benefit From Simplicity

Some financial statement preparers say they see disclosure simplification efforts as a positive change.

"Nobody likes change for change's sake," said Chris Rogers, CPA, CGMA, the CFO of New Jersey software developer Infragistics Inc. "But if it adds to the ability to make informed financial decisions and makes my life easier, then I support it."

David Duckwitz, CPA, director of quality control for RubinBrown, said: "FASB has done a good job of balancing interested parties' perspectives. Users always want more, so it is a tricky endeavor."

2. Cost Savings for Private Companies

Reducing complexity and increasing disclosure effectiveness should result in financial reporting that is simpler and less costly. This is especially true for private companies. Rogers, who served on FASB's former Private Company Financial Reporting Committee, believes FASB has already made meaningful accomplishments by adopting GAAP changes that simplified accounting and disclosures for private companies through the work of the PCC. "The reporting requirements and cost/benefit analysis are radically different for private versus public companies," he said.

Users' needs are different for each reporting company, and user demands have required preparers to disclose more information in different formats than they need to run their business—and more information than even GAAP requires. Rogers said the PCC's accounting and disclosure simplifications for private companies make sense because private companies are more transparent to their financial statement users.

"A private company can tell its bankers things that a public company cannot, or can provide information in a more meaningful way, like by giving them a schedule and walking them through it," he said. "… Audited financial statements of private companies should include a statement: 'Additional information requests should be directed to [name].'"

3. More Effective Public Company Disclosures

The impact of the new initiatives for public companies is related to improving disclosure effectiveness. Susan Callahan, CPA, director, Americas Accounting and Global Accounting Policy at Ford Motor Co., said that what investors find useful may not always be the same as what is required.

"Our objective, in addition to compliance, is to disclose what is relevant for investors to make decisions," she said. "Our investors will often ask questions about the business, and over the years and when appropriate, we have responded by modifying our disclosures to present the information they are requesting. This may not always cleanly align with what the standards require. We often find ourselves challenged in balancing our disclosures between what is required and what is relevant for the users, particularly when either the disclosure is for something that is immaterial, or when the volume or content of the required disclosure could obfuscate the important information."

Callahan supports a global alignment of financial reporting standards because she believes consistency in financial accounting standards will help eliminate unnecessary complexity for global companies. She

EXECUTIVE SUMMARY

- **Standard setters and regulators recognize that complexity in accounting standards is leading to confusion** among financial statement users while unnecessarily burdening financial statement preparers. Various initiatives aimed at simplifying accounting standards and financial reporting have been designed to reduce this complexity.
- **Simplification efforts may benefit financial statement preparers.** These changes will reduce costs for private companies, lead to more effective disclosures for public companies, and allow for a redeployment of finance resources to areas that can add value to organizations.
- **The changes [redacted] coming quickly from multiple sources.** Preparers and auditors need to stay informed to take advantage of opportunities for simplification that can help them and their clients.

Maria L. Murphy (emailmariamurphy@gmail.com) is a freelance writer based in Wilmington, N.C.

To comment on this article or to suggest an idea for another article, contact Ken Tysiac, editorial director, at ktysiac@aicpa.org or 919-402-2112.

The Pursuit of Simplification

Regulators and standard setters are pursuing initiatives to simplify financial statement preparation and improve financial reporting. These include:

FASB: The Disclosure Framework Project's objective is "to improve effectiveness of disclosures in notes to financial statements by clearly communicating information that is most important to users of each entity's financial statements." Part of this project is development of a framework for the board's decision-making process while creating new standards and evaluating existing disclosure requirements. In June 2014, FASB launched a Simplification Initiative, identifying narrow-scope disclosure projects that the board can deliberate on to reach quick conclusions about changes that will reduce cost and complexity.

PCC: The Financial Accounting Foundation's Private Company Council, created in 2012, determines when modifications to GAAP are needed for private companies to simplify accounting in complex areas, and proposes new GAAP alternatives (subject to FASB approval) that private companies can choose to adopt. It also advocates for private company interests in FASB standards.

FRF for SMEs: The Financial Reporting Framework for Small- and Medium-Sized Entities, developed by the AICPA and released in 2013, is a non-GAAP, special-purpose reporting framework that certain qualifying privately held companies may choose to use to simplify their accounting and reporting.

SEC: The SEC staff recommended in December 2013 that the commission undertake a comprehensive review of current SEC disclosure requirements as a starting point for overall disclosure simplification and effectiveness for all public companies. The intent of the SEC's Disclosure Effectiveness project is to make disclosures less costly for preparers and more useful for investors.

IASB: The International Accounting Standards Board began a broad initiative in December 2012 to explore how disclosures in IFRS reporting can be improved and simplified. There are a number of projects and proposed amendments to existing standards included in the initiative. Amendments issued in December 2014 emphasize the importance of materiality and state that preparers should use professional judgment in determining the location and order of information in disclosures.

suggests that financial reporting should provide management with discretion for how to present the disclosures, unlike those standards that mandate not only the content but also the format. "Companies should at least have the discretion to decide whether a table is more or less useful than a narrative in order to comply with disclosure requirements," she said.

4. Redeployment of Finance Resources

Reducing the level of complexity and reporting requirements may result in cost savings through efficiencies and reduction in required numbers of personnel. But the more likely outcome, experts say, is a redeployment of resources to improve the quality of reporting or to address other business needs.

"Every dollar spent in finance is a regulatory cost," Rogers said. "But finance staff can partner within their organizations or with customers to make better business decisions, or pair up with information technology to fix systems or get real financial information to decision-makers. Junior accountants can be made into analysts to provide insight into other areas, like marketing, to improve ROI."

Callahan agrees that simplification will have an impact on preparer resources and the quality of the disclosures.

"Once reporting is simplified and the disclosure processes have settled down, people should be freed up for more strategic thinking and analysis," she said. "And the more we embrace principles-based, global standards, like the new revenue standard, we should replace time spent on disclosure compliance with time better spent on upfront analysis, documentation, and even more effective disclosures."

5. Minimal Changes for Auditors and Fees

Callahan does not believe that audit fees will be reduced in any significant way as a result of simplification, given new accounting standards, required audit documentation, and additional pressures from regulators, including the PCAOB.

Auditors say that applying private company accounting changes more broadly to simplify accounting for all companies is a positive development. Many companies had trouble with complex GAAP in areas such as impairment of goodwill and intangible assets, fair value, derivatives and hedging, and consolidation of variable-interest entities. These challenges resulted in difficult audit issues as well, and the time spent by all did not always result in financial information that was meaningful or useful to the users of those financial statements. Simplification in these areas of accounting should result in overall time and cost savings.

Accountants in public practice have an interest in simplification efforts because of the effect on their clients, firms, and staffs. This impact will depend on the types of clients in their practice and whether they include private companies eligible to use different frameworks. In general, small business clients stand to gain the most, but the audit workload isn't expected to decrease significantly.

"PCC changes within GAAP are going to catch on and will be beneficial to small

businesses that are unnecessarily impacted by complex standards," said Harold L. Monk Jr., CPA, a partner with Carr, Riggs & Ingram. "For accounting firms, this may ultimately result in some decrease in time spent on engagements, but I don't think the change will be so noticeable or extensive that it will impact gross revenues. It will just mean that we will be able to get jobs done more timely with some increase in margins."

Duckwitz believes that the private company initiatives will provide some relief and be welcomed by companies and their auditors, but he does not expect them to cause a major change for RubinBrown or its clients.

"For most middle-market companies, the relief areas are narrow in scope, so I don't think we will see a massive amount of relief for finance staffs," he said. "We don't expect a major change in our business or workload, as it is a relatively small piece of our overall engagements."

6. New Education and Communication

Firms may have to address new and different available frameworks and standards in their training, procedures, and quality control.

"In firms with no centralized oversight of rules or system for dealing with new literature, like a national office standards group, new reporting models have the potential to be more challenging," Duckwitz said.

It is important for CPAs to communicate with their clients about the new simplified frameworks that exist. Smaller companies may not be aware of options that are available to them and that would benefit their financial statement users, because they may not allocate resources to following emerging standards, Duckwitz said.

"Particularly in the area of FRF for SMEs, where preparers and users may be confused about the framework, CPAs can explain the differences upfront and why it may be a good fit, because it helps to eliminate some GAAP complexities," he said.

Monk said more education for clients and their financial institutions about FRF for SMEs, so that they understand this basis as well as they understand the cash or tax basis, would likely lead to wider use of this framework.

"These changes can be beneficial to small businesses if they understand them," he said.

Some experts say that simplification could allow a redeployment of finance resources to improve the quality of reporting or to address other business needs.

7. Obstacles Will Remain—and Emerge

While there is much going on to make financial reporting simpler, new standards on revenue recognition and leasing will add accounting complexity during implementation, as well as new disclosure requirements. The impact of such new standards intended to simplify accounting and improve consistency of financial reporting will need to be assessed over time as implementation and disclosure issues are addressed.

A challenge to companies that want to streamline their disclosures and remove information is their audit firm's risk management and preference for more disclosure and reluctance to remove previously reported information. It may be easier for auditors to document companies' compliance with standards when more disclosure is provided. This issue is more difficult for public company auditors subject to PCAOB inspections.

Standard setters and regulators are delivering a clear message through their simplification initiatives that they believe consistent, relevant, effective financial information is a goal with clear benefits to all. Preparers and auditors need to be vigilant in order to be prepared for the changes and take advantage of opportunities that simplification of standards may present. ❖

AICPA RESOURCES

JofA articles

- "Revenue Recognition: No Time to Wait," July 2014, page 40
- "New Option a Game Changer for Private Companies," Sept. 2013, page 44
- "A Quest for Relevance: New Framework for SMEs Balances Costs and Benefits in Financial Reporting," Dec. 2012, page 32
- "FAF Creates Private Company Council," July 2012, page 12
- "One Size Does Not Fit All," Jan. 2012, page 46

Go to journalofaccountancy.com to find past articles.

Publications

- *Financial Reporting Framework for Small- and Medium-Sized Entities With Implementation Resources* (#AFRFSME13P, paperback; #AFRFSMEO, one-year online access; #AFRFSME13E, ebook)
- *Understanding Revenue Recognition: Changes to U.S. GAAP—AICPA Alert* (#ARAREV14P, paperback; #ARAREVO, one-year online access; #ARAREV14E, ebook)
- *U.S. GAAP Financial Statements: Best Practices in Presentation and Disclosure* (#ATTATT14P, paperback; #ABPPDO, one-year online access)

CPE self-study

- FASB Standards: A Comprehensive Review for All CPAs (#730770, text; #163690, one-year online access)
- Financial Reporting Framework for SMEs (#745141, text)
- IFRS Certificate Program (#159770, two-year online access)

For more information or to make a purchase, go to cpa2biz.com or call the Institute at 888-777-7077.

Webpage

- Financial Reporting Framework for SMEs, tinyurl.com/mehhdzr

Beyond Spreadsheets

Experts explore what the next few years have in store for accounting technology. First of two parts.

by Jeff Drew

Is it the end of an era if virtually no one notices?

That question seemed relevant last fall when IBM officially ended support for Lotus 1-2-3, which was once the world's dominant spreadsheet program. Because Lotus was eclipsed by Excel long ago, its demise was barely noticed in accounting circles, where the spreadsheet application was once hailed as revolutionary.

A few months after Lotus's quiet goodbye, the *JofA* gathered three of the accounting profession's top technology experts for the publication's annual technology round table. The experts—David Cieslak, J. Carlton Collins, and Rick Richardson—discussed the current state of technology in the accounting profession, how they foresee technology evolving over the next few months and years, and what CPAs need to do to keep pace.

Among the topics that sparked debate was the future of the spreadsheet. Could any current products relegate Excel to Lotus's fate? Or will Microsoft's ubiquitous spreadsheet application stand the test of time?

Those questions are addressed in part 1 of a two-part edited transcript of the conversation. Part 2, which will appear in the June *JofA*, features an in-depth and impassioned discussion about what the experts see as a cybersecurity situation that could prove disastrous for CPAs and their employers and clients.

The *JofA* interviewed the experts in a January conference call. Profiles of the panelists and the first part of the edited transcript follow:

THE PANELISTS

- **David Cieslak**, CPA/CITP, CGMA, GSEC, principal and founder of Arxis Technology and a popular technology speaker known as Inspector Gadget.

- **J. Carlton Collins**, CPA, the CEO of ASA Research and author of the *JofA*'s monthly Technology Q&A column.
- **Rick Richardson**, CPA/CITP, CGMA, founder and managing partner of Richardson Media & Technologies and a speaker on the future of technology.

What do you see as the future of the spreadsheet?

Richardson: A product called Tableau. It's not cheap—about $999 for a personal version. If you want it in a professional setting, it's about $2,000, but it comes not only in a desktop but in server and online versions and offers data engine capabilities that we couldn't get in a spreadsheet—with query capability, easy language development for problem-solution settings. It's pretty slick.

Microsoft offers an incredible product called Power BI as part of the Office 365 service—it's a collaborative way to access reports from anywhere on any device. And BI has announced a whole new set of capabilities for interactive charting and graphing, and visualizations for dynamic data that change on the fly as the user is looking at it.

So some of those features are going to be even more important to us—like dashboards and the ability to support other software-as-a-service (SaaS) kind of applications like Salesforce or XenDesktop or even Microsoft's own Dynamics CRM Online.

The ability to have that functionality native on a tablet like an iPad becomes an incredible tool for the professional. It really does move past that point of just the traditional spreadsheet rows and columns to a brand-new level of data analysis.

Cieslak: One of the products we work with is Adaptive Insights, and it essentially positions itself as a replacement to the spreadsheet—a super spreadsheet if you will. It still uses the rows-and-columns paradigm, but it allows you to do high-powered financial modeling, financial reporting, consolidations, budgets, and forecasting.

With this approach, you're leveraging people's comfort and familiarity with spreadsheets but then saying, "Let's bring some more horsepower to the mix." It could be a SaaS-multitenant solution like Adaptive or Host Analytics or even an Excel-based add-on like BizNet, which is another product we've been working with and are very delighted with. It allows you to do a lot of heavy lifting quickly without having to become an Excel maven, and it helps you get a lot more out of the paradigm without requiring that you spend hours and days and weeks becoming a spreadsheet guru.

Carlton, as an Excel guru, how do you see this evolution happening?

Collins: I predict that CPAs will still be using Excel 100 years from now. The product's utility will simply live on forever. Of course, Excel will continue to improve, as evidenced by the new business intelligence capabilities of Excel 2013/365, which include Power Map (see "Technology Q&A," *JofA*, Dec. 2014, page 78) and Power View. Not only do these new tools enable CPAs to plot data on charts and maps and then set that data in motion, they also enable CPAs to produce and share videos of this data, which I think will be a future trend—just as a picture is worth 1,000 words, putting data into motion and animating that data on a map will be worth 10,000 words.

On the hardware gadget side, David, you have talked about wanting to make your computer bag thinner. Can you project out to later this year, and then maybe out three years? How small can you get that bag?

Cieslak: I like hybrid tablets such as the Microsoft Surface Pro 3. It's actually both a tablet as well as a desktop replacement. There's still going to be a role for a desktop computing device. We want lots of screens and screen real estate so we can view as much data as possible, and I don't see that need ever going away. But it would be nice for that device to be same one that you can grab and go with. We're seeing a lot of people picking up 13-inch hybrid tablets to function as a tablet as well as a desktop replacement and really enjoying the experience, so I like that notion.

I'm excited about the potential of the new Intel Core M processors. These units use a new manufacturing technique, resulting in smaller, thinner, and cooler processors. And because Core M CPUs won't require a fan, devices should run longer, too. I really look forward to seeing what the next generation of computing devices are.

I believe there is going to be continued movement toward fewer devices. So, much like the smartphones helped us get rid of a lot of other devices, I'm looking for the next generation of tablets to maybe formally start to eliminate a true laptop for the end user.

Along those lines, there are new power solutions coming, so devices can run longer on a single charge—maybe even all day. Even the power adapters themselves are

shrinking in size. So any-and-all-things tablets just reduce the weight of what we're carrying around as well as continue to help make it very much a grab-and-go experience where there's not a whole lot of time undocking and redocking the devices. I should just be able to drop the device on the desk, and all of the sudden it recognizes where I am and reconnects with the monitor and so forth. I think we're going to see more innovation on that front as well.

Collins: I disagree with David about desktop computers being unnecessary. I have a couple of Ultrabook-class laptop computers, a Microsoft Surface Pro, an iPad, and a smartphone, but I generally don't use these devices to get the bulk of my work done. I prefer to use my powerful desktop computer with 80 inches of monitors equipped with multiple scanners, printers, web cameras, a Blue Yeti microphone, an ergonomic keyboard, and an executive leather chair.

The comfort of this "command center" enables me to work productively all day; I'm not nearly as productive when using my less-ergonomic mobile devices. With those, your neck has to crane down to look at the device, and that's not healthy for your posture. Your monitor should be at eye level so your spinal column supports the weight of your head. In addition, I prefer to use a mouse, not a touchpad, because I've found the mouse to be a quicker and more versatile input device.

For these reasons, I believe the desktop computer still plays a significant role for CPAs, particularly those who crunch and create data. In contrast, if you're an executive CPA who really doesn't crunch the data and all you need to do is consume the data, then these mobile devices may be all you need. Further, I think tablet devices have been a fad that are on the way out for a lot of CPAs. They're great for consuming data but not so great for getting work done. Instead of tablets, I think CPAs would be better off carrying an Ultrabook-type device, which is basically a larger tablet with a built-in keyboard, as these devices give you both the simplicity of a tablet and the power of a laptop combined.

As for the CPA's tool bag, I prefer to equip my staff with a powerful smartphone with multiple recharging cables so they can recharge anywhere, and maybe an earpiece for their headset so they can communicate hands-free. I like my staff to carry some type of external drive device, but not a thumb drive. SD cards are better than thumb drives because they don't have to be removed from the mobile device when transporting them—just leave them plugged in to keep track of them more easily. In addition, I like my staff to carry a one terabyte or larger USB drive so they can grab volumes of data from clients, if necessary. I also prefer my employees to drive automobiles equipped with Bluetooth hands-free phone capabilities and a GPS mapping guidance system. This last gadget may sound a little extravagant, but it makes me far more productive, so I know it would make my employees more productive as well.

> "I'm looking for the next generation of tablets to maybe formally start to eliminate a true laptop."—David Cieslak

Richardson: I do different work when I'm on the road than I do when I'm sitting at my desktop. So to say I need a computer that can replace my desktop and my laptop doesn't make sense for me because the kind of work I do is different.

For me, a tablet with a detachable keyboard is a perfect alternative because I am consuming more when I'm on the road than I am creating. It's only those times when I know I'm going to be at a client's site for a long period of time that I want to make sure I have something robust enough to really get some of the things that I normally do in the office while I'm at the client's location or at the hotel. In those cases, it's almost certainly going to be a laptop with enough functionality and size to be able to get the things done I need to do.

The tablet has changed the way I read. It's something that I spend three hours with every night because it's far easier for me to manage my overall reading process for all of the research that I do than it is with either a laptop or a desktop.

So, for me, having a laptop that's got a detachable keyboard makes a lot more sense. I think the smartphones are going to just continue to get better and better, and I'm going to have one of those in my bag.

One other thing that just came out—or that I just got a chance to see—is a new set of lithium ion disposables that are little cubes done in cardboard, and they're very lightweight. You tear one or two off—they can either be a two-, four-, or six-hour variety—and you plug them into the bottom of your phone.

The value to me is that you can put 10 or 20 in your bag and you've increased the total weight by about 3 ounces because they're very light and they're very adaptable. So from a weight perspective, I like it a lot, and I like that I can just plug in one of these things and not have to worry about finding a wall outlet until I get to the hotel.

What are you most excited about for the next 12 months?

Collins: In January, Microsoft launched a new business and public tool called Microsoft Delve, and it's included with select Office 365 Business plans. Delve utilizes a machine-learning tool to map relationships between people, conversations, calendars, emails, email attachments, SharePoint business files, OneDrive files, mobile device files, pictures, and videos—all in an effort to automatically organize your data across your many platforms. This technology pulls everything together so you don't have to search so hard for your data (see "Technology Q&A: Delve Into This," page 119).

A lot of people are predicting that wearables are going to become the big rage, but I think we've already been down the small-

as-possible smartphone path only to return to larger smartphones. I predict that while wearable devices with Hello Kitty logos may be a big hit in middle school, most professionals will forgo wearables in lieu of lighter versions of today's larger-size smartphones—at least until the lapel-pin-size communicators featured in *Star Trek* become a reality.

David, I know you love your Pebble Steel. Do you want to comment?

Cieslak: Yeah, it's so funny because, as I'm listening to Carlton, I'm looking at my Pebble and thinking about how much I appreciate its notification capabilities throughout the day.

I'll just use a few examples. When I'm traveling, my smartwatch notifies me of a delay in my flight, and I'm not always having to fish for my phone because I think I just heard a notification ping off. Or I get a text from my spouse, but I'm in a meeting; I can just look down at my watch and think, "OK, I'll give her a call at the next break."

I have Apple Pay configured on my iPhone, and so every time my credit card gets used, I get a notification on my wrist on my Pebble smartwatch. It's about understanding what information to send to the user's wrist, and not overplaying it. So I like the smartwatch technology. It most certainly isn't a replacement for a smartphone, much like a tablet isn't a replacement for a desktop experience. I just know how valuable it is for me.

Richardson: I am an outright fan of Apple Pay. This whole idea of being able to not have your credit card number go to a vendor when you pay for things—I think the more I can do it that way, the better I'm going to like it, and a smartwatch just makes it even more convenient.

Having said that, two other things that I think are outside the bounds of public accounting but are part of the world we live in—one is 3-D printing. Last year I forecasted it would be a big thing, but principally for manufacturing—for parts—and that whole renaissance happening in manufacturing.

I have seen recently three or four articles on the use of 3-D printing for medical purposes. And there's one in particular where a baby was less than a week old and had a hole in her heart. The heart was so small it was almost impossible to figure out how to work on it. They ended up printing four versions of the heart so that the four surgeons who were going to work on the thing had something to practice on before they got in to do their work. It also cut the amount of time that the baby had to be under a general anesthetic from 11 hours down to three hours.

When things like that start happening and we start seeing the potential for other types of devices—medical devices being done as a result of using human tissue as part of the printing process—I think it's going to be some pretty exciting stuff.

Last but not least, I am waiting for the smart television. But, for me, the smart television has to really be smart. And what I mean by that is it's got to take voice commands, it's got to be such that I don't have to worry about the six HDMI ports on the input process or how to get the audio system to tie in.

It's the one last place in the home where we've surrendered to a 56-button remote—three or four of them—or if we're even forward-looking, we get a Logitech Harmony [universal remote control], and we have it all on one 56-button remote. I want a one-button remote, and I want to just tell the thing what I want to do and have it get smart enough to realize what I like watching and start anticipating my needs. That's probably two or three or maybe even four years away. ❖

__Jeff Drew__ is a JofA senior editor. To comment on this article or to suggest an idea for another article, contact him at jdrew@aicpa.org or 919-402-4056.

AICPA RESOURCES

JofA articles

- "The CPA Technology Gift Guide," Dec. 2014, page 52
- "Technology Q&A: Power Map," Dec. 2014, page 78

Go to journalofaccountancy.com to find past articles.

Publication

- *10 Steps to a Digital Practice in the Cloud: New Levels of CPA Firm Workflow Efficiency* (#PTX1204P, paperback; #PTX1204E, ebook)

CPE self-study

- Advanced Excel: Practical Applications for the Accounting Professional (#745755, text; #163140, one-year online access)
- Excel for Accounting and Finance Professionals: Level 1 (#746080, text)
- Excel for Accounting and Finance Professionals: Level 2 (#746090, text)
- Hosting in the Cloud (#BLI165030, one-year online access)

Conferences

- Practitioners Symposium and Tech+ Conference, June 7–10, Orlando, Fla.
- Digital CPA Conference, Dec. 7–9, Las Vegas

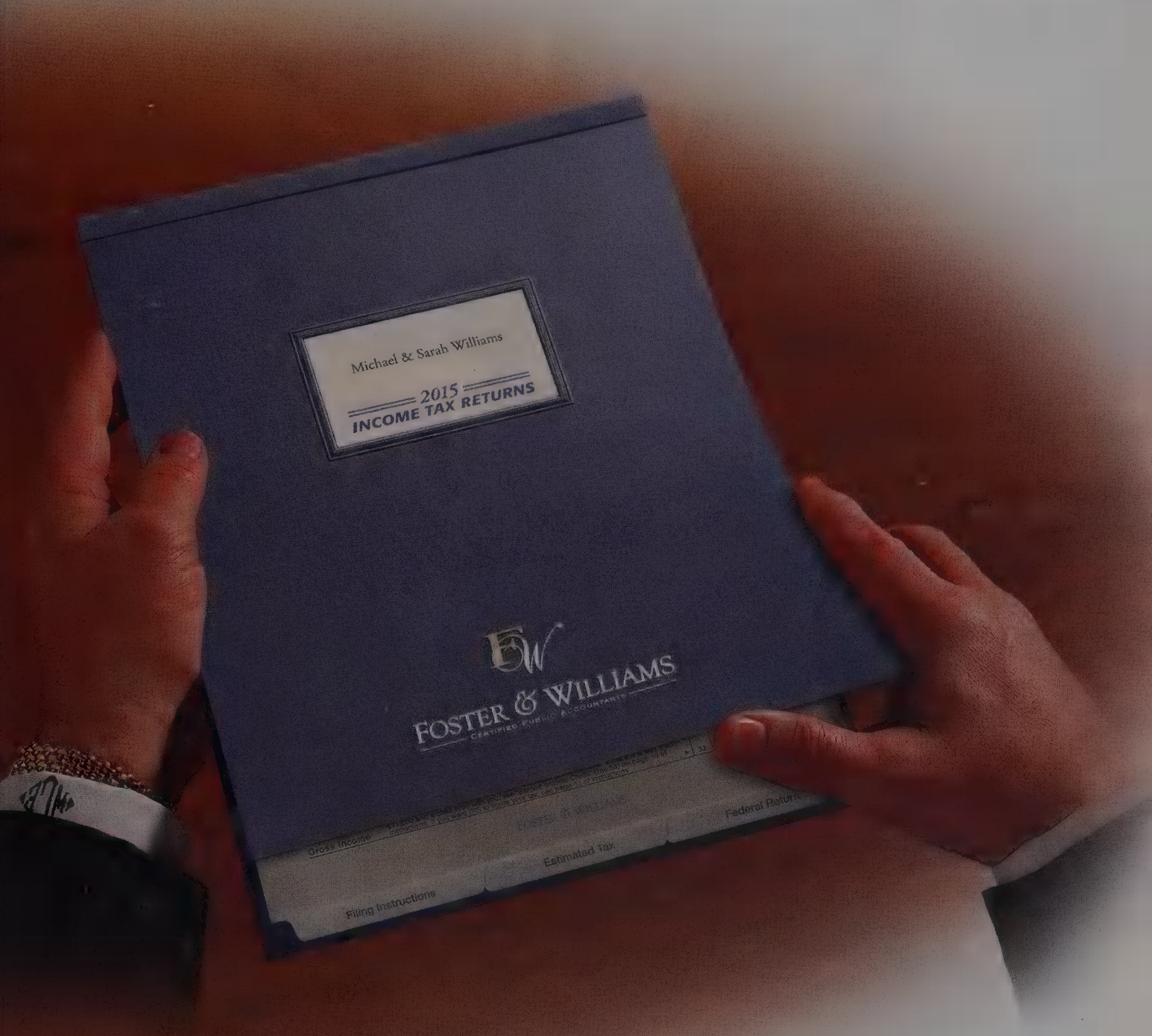
For more information or to make a purchase or register, go to cpa2biz.com or call the Institute at 888-777-7077.

Information Management and Technology Assurance (IMTA) Section and CITP credential

The Information Management and Technology Assurance (IMTA) division serves members of the IMTA Membership Section, CPAs who hold the Certified Information Technology Professional (CITP) credential, other AICPA members, and accounting professionals who want to maximize information technology to provide information management and/or technology assurance services to meet their clients' or organization's operational, compliance, and assurance needs. To learn about the IMTA division, visit aicpa.org/IMTA. Information about the CITP credential is available at aicpa.org/CITP.

New Profit Center!

Brand an Image of Excellence to Your Affluent Clients.



THE LOCKHART GUARANTEE

You risk nothing! 100% unconditional guarantee.

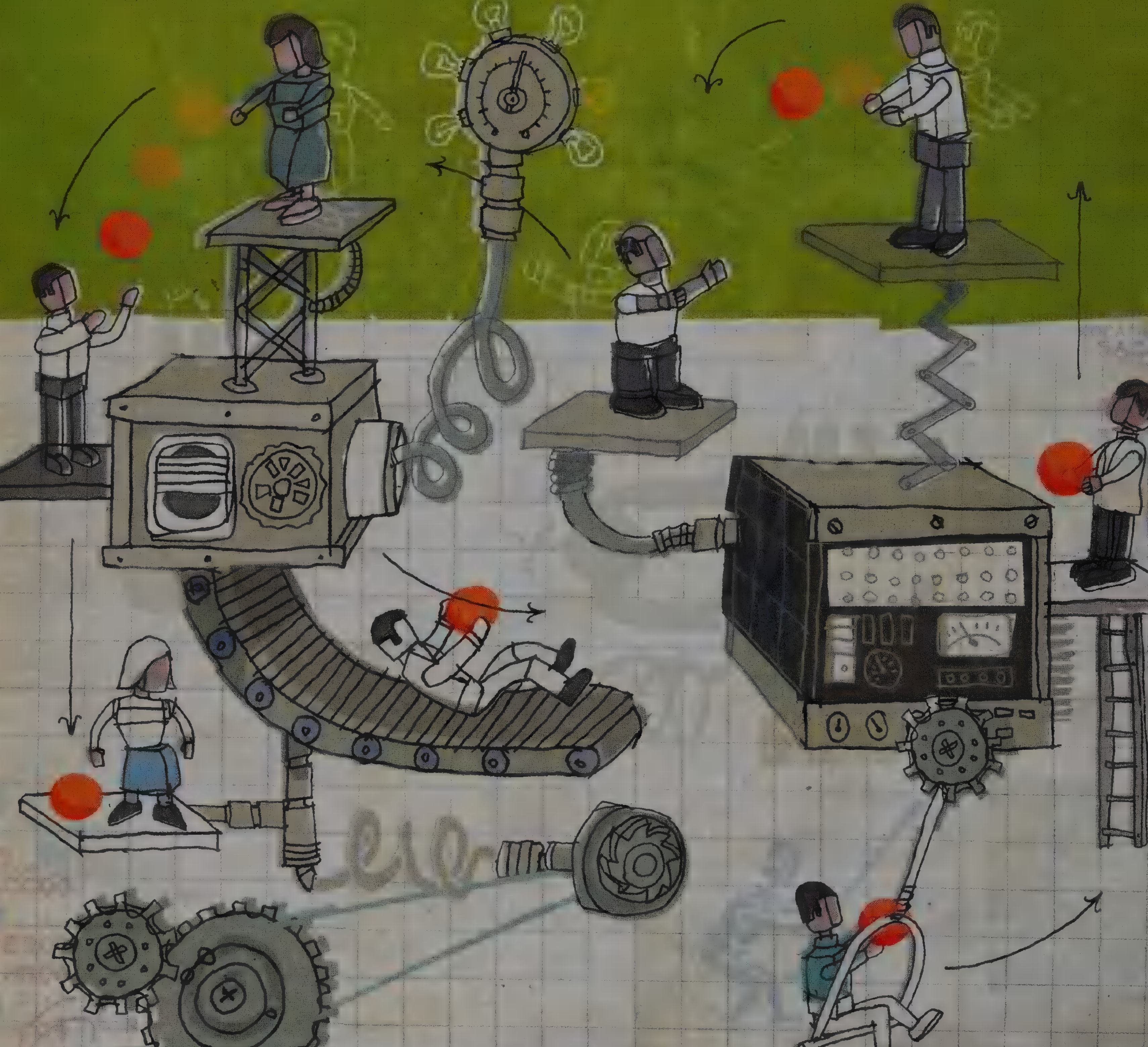
"We still believe that your coversets provide us with the outstanding appeal that a professional firm should use."

LOCKHART

Brand Your Image of Excellence™

www.PresentationFolders.com (800) 966-2709

Models of Success?



The ability to develop new service offerings may determine the fate of accounting firms in the future.

by Jeff Drew

Adrian G. Simmons, CPA, would like to see the term "The Firm of the Future" become a thing of the past.

"[It] is somewhat of a limiting term," said Simmons, chief creative designer of a Maryland accounting firm and co-founder of the Thriveal Laboratory. "It presents the idea that there is a single model we are evolving to. We need to get rid of that idea. 'The Firm of the Future' is really 'Firms of the Future.' "

That concept was at the heart of the first experiment conducted by the Thriveal Laboratory, which was created by Simmons and Jason M. Blumer, CPA, chief innovation officer of Greenville, S.C.-based Blumer CPAs and founder of the Thriveal CPA network, a community of accountants pushing for creativity and change in the profession.

The hypothesis of the first Thriveal Labs experiment was that "there will be multiple successful business models for accounting firms of the future." To test that hypothesis, Thriveal assembled a team of six small firm leaders to prototype new business models for public accounting—a process that reinforced Simmons' belief that the ability to develop and adapt business models will be a key differentiator among accounting firms in the near future.

"Business model design is going to become a strategic skill that will become a competitive advantage," Simmons said. "CPAs who have a comfort level playing with business models will be the ones who succeed."

While Thriveal uses the term *business model* to describe the prototypes outlined in the experiment report, the models presented could also be adapted to lines of business within an existing firm. The tool used to develop the prototypes focuses on areas related to a line of business—customer segments and relationships, revenue streams, cost structure, and key partners, activities, and resources. It does not directly address culture and talent, other areas identified by the AICPA Private Companies Practice Section as essential in developing accounting firm business models. In light of those definitions, this article uses the term *lines of business* in explaining the Thriveal prototyping process and examining a couple of firms not associated with the Thriveal experiment that have found success experimenting with new business lines.

The Firm of the Future: A Value Proposition

Before you can relate the Thriveal experiment's conclusions to your firm's current situation, it helps to understand the context in which they were created.

Ron Baker, founder of the VeraSage Institute and author of several books, including 2003's *The Firm of the Future: A Guide for Accountants, Lawyers, and Other Professional Services* (co-authored by Paul Dunn), has largely popularized the concept of The Firm of the Future. Since then, Baker has emerged as the foremost proponent of value pricing in the accounting profession, arguing that accounting firms should abandon the time sheet and instead price their services based on the value they create for the client—a concept he explained in the November 2008 *JofA* article "The Firm of the Future" (page 68).

Baker says today that he agrees with Simmons that there is not just one definitive business model for accounting firms in the future. Instead, Baker defines the term business model as "How your firm creates value for customers and how you capture that value."

Despite the book's title, Baker says *The Firm of the Future* never argued that firms should adopt the same business model.

"We didn't use the term 'business model' in the book, as it wasn't in the popular lexicon back in 2003," said Baker. "The book ... advocates leveraging knowledge, not time, including the human capital of a firm's knowledge workers, along with its social and structural capital, effectiveness over efficiency, and value pricing over hourly billing."

In the past few years, Baker's concepts have served as the foundation for a vision of the future of public accounting that thought leaders in the profession have embraced and championed in books, articles, and conference sessions. Several variations of the vision exist, but most, if not all of them, attribute the following characteristics to the accounting firm business model of the future:

> Firms can use the value concept to ascertain which opportunities to pursue in an increasingly segmented marketplace.

- Because technological advances and market forces will continue to commoditize core transactional accounting activities, including tax return preparation, accounting firms must focus on becoming trusted advisers that provide their clients with the insight, analysis, and advice needed to make quick business decisions and develop long-term business strategies.
- Because anytime, anywhere data access and advances in automation can make write-up work profitable, accounting firms can leverage client accounting and outsourced and/or fractional CFO/controller services as an avenue to build deeper relationships with clients, learn more about their business situations, and position themselves to provide proactive advice, helping to cement a role as the trusted business adviser (see "From 'Write-Up' to Right Profitable," *JofA*, April 2013, page 24).
- Because increasing complexity will continue to make business decisions more difficult to assess and execute, clients will increasingly seek advisers who have expertise in their industry. This means that accounting firms should focus on developing great depth of knowledge

in specific industry and subindustry verticals—specializing in, for example, not just restaurants but quick service chains. This approach is enhanced by the emergence of cloud and mobile technologies, which make data available on an anywhere, anytime basis and create communication channels that eliminate most geographic barriers to doing business. This, in turn, allows firms of all sizes to add clients, employees, and contractors in geographically diverse locations.

- Because trusted adviser and client accounting services do not readily lend themselves to hourly pricing, value pricing will emerge as the primary method for setting client fees and delivering higher profits, greater client satisfaction, and more growth opportunities for firms.

It is against this backdrop that the Thriveal Laboratory launched its first experiment.

Prototyping New Lines of Business

Simmons sees value pricing as a tool that helps to develop firm business models. In his view, value pricing enables innovation and exploration. Firms can uncover new opportunities for clients by asking probing, aspirational, open-ended questions about the client's business that are designed to determine which services the client might want or need. Value-pricing techniques then help the firm determine whether it can generate enough fees to make a profit on the engagement.

Similarly, firms can use the value concept to ascertain which opportunities to pursue in an increasingly segmented marketplace. "There are so many things we can do," Simmons said. "What the accountant of today is trying to answer is, 'What should I do?' "

To help with that process, the Thriveal Laboratory turned to the Business Model Canvas, a tool for visualizing and adapting business models created by Alexander Osterwalder as part of his Ph.D. dissertation for Professor Yves Pigneur at the HEC Lausanne business school at the University of Lausanne in Switzerland. The two explained the concept in the 2010 book *Business Model Generation*.

For its experiment, the Thriveal Lab had the participating practitioners create types of accounting businesses using the canvas, which constructs and deconstructs business models using nine building blocks (download a PDF version of "The Business Model Canvas," developed by the Business Model Foundry AG, with the online version of this article at journalofaccountancy.com/models-of-success). At the center of the canvas is "Value Propositions," where the prototype builder attempts to establish the reason for pursuing the business by answering questions related to the customer problems the line of business would solve and the value it would provide.

What the Experiment Produced

What happens when an accounting firm uses the canvas to develop and assess potential lines of business? The Thriveal experiment participants brainstormed and created a number of business prototypes, six of which are profiled in the group's first lab report (download a PDF version of the report from the online version of this article at journalofaccountancy.com/models-of-success). Here's a quick look at two of those models (the rest can be viewed in the lab report PDF).

- *Middle-age children and their parents:* As people age, they sometimes become less able to manage their affairs. In those situations, their children might want or need to help. An accounting firm could be specifically structured to serve that market and provide the following value propositions: financial management for parents, tax preparation and retirement planning services for the children, and networking with elder care resources to help children find the assistance they need to care for their parents. Targeting upper-middle-class children with aging parents, the firm could use electronic bill-paying software and set up a system for digitizing and automatically paying the parents' bills, generating the added benefit of providing an online transaction history for the children. In addition, the

EXECUTIVE SUMMARY

- **"There will be multiple successful business models for accounting firms of the future."** The first experiment from Thriveal Labs tested this hypothesis and prototyped new lines of business for accounting firms.
- **"Business model design ... will become a competitive advantage."** Adrian G. Simmons, CPA, co-founder of Thriveal Labs, argues that the CPAs most likely to succeed are those skilled at and comfortable designing and deploying new ways of doing business.
- **Participants in the Thriveal experiment used "The Business Model Canvas" template,** developed by the Business Model Foundry AG. The template focuses on key components for success in a line of business.
- **Value pricing serves as a catalyst for many new business lines.** The structure allows for more client contact and greater pricing flexibility than hourly billing, opening the door to different kinds of services.
- **Initial meetings with clients play a key role in the success of engagements.** By asking the right questions and listening, firms can understand the client's goals and objectives, making it possible for the sides to determine what success looks like—and how much the firm's services should cost.
- **Firms are experimenting and succeeding with new business approaches.** A Michigan firm has leveraged value pricing and niche specialization to offer consulting services to restaurants. Another firm, based in California and New York, bolstered its consulting offerings with strategic advertising and marketing advice provided by the firm's recently hired marketing manager.

Jeff Drew is a JofA senior editor. To comment on this article or to suggest an idea for another article, contact him at jdrew@aicpa.org or 919-402-4056.

firm could partner with elder care attorneys to provide additional services.

- *Solo international tax specialist:* As more U.S. businesses and individuals pursue international opportunities, and more foreign investors move to the United States, CPA firms are increasingly running into international tax returns, along with compliance and planning issues. In this model, a CPA with specialized research tools and expertise in international tax accounting provides international tax services to accounting firms. This CPA mitigates the risk for accounting firms' encountering international tax issues with which they are not familiar and also handles the international tax work for the client firms, providing expertise and allowing the firms to provide additional value to their clients at a lower cost than hiring an international tax law specialist of their own. The outsourced international tax specialist uses video conferencing and secure document exchange software to work with a select pool of accounting firms serving international executives or organizations with international business. The firms pay a fixed amount for annual access to the specialist.

How It Works in Real Life

While the Thriveal experiment involved brainstorming different business types, many firms are trying and succeeding with business line innovation and adaptation. One example is Lord & Associates PC/CPAs, a 30-year-old Michigan firm that has been transformed in recent years.

"The biggest change by far has been when we switched to value pricing," said Corey Lord, CPA, CGMA, the firm's chief innovation officer and "virtual CFO." "I thought it made so much more sense than billing by the hour, and it opened up new avenues for different types of services for us to offer."

No longer worried about incurring additional fees under an hourly billing structure, Lord's clients began to contact the firm much more frequently with questions and ideas. These interactions led to Lord's adding consulting to its list of services. That, in turn, led Lord to determine that it should offer consulting services in specialized industries.

"The one that we chose was restaurants," Lord said. "I'm a foodie, love food, love cooking. I used to work in restaurants, so I really understood the process and, now that I know the financial end of it, it's very beneficial for me to bring that extra expertise."

Lord also has experimented with different pricing models. Lord refers to one of those as "pay what you want" pricing.

"It's basically value pricing without us actually saying anything about what we want for price," he said. "One of our clients ended up paying us $500 more per month than I thought they were going to offer. My original proposal was less."

Another firm that has found success in developing new business lines is TYS, an accounting and advisory firm that offers a mix of attest, financial statement, income tax, bookkeeping, and consulting services for clients in three main categories—closely held and family-owned businesses; construction companies; and individuals and families. The firm, with offices in San Ramon, Calif., and Fairport, N.Y., hasn't used time sheets in years, said co-founder and partner Tim Shortsleeve, CPA/CITP. Instead, TYS relies on value pricing as much as possible.

In some ways, TYS resembles The Firm of the Future described in so many articles and conference sessions. The firm leverages cloud-based software and automation to profitably offer write-up and "virtual CFO" services. The firm also offers consulting services while serving as the trusted adviser.

On the other hand, TYS still has some things in common with traditional accounting firms. For example, most of its revenue continues to come from attest and tax work, though the firm is striving to more than double its revenue percentage from consulting, to 25%. In addition, the process it's following to reach that goal dovetails nicely with the concepts of client interaction and business services evolution espoused by Simmons.

Before signing on a new client, Shortsleeve likes to hold an initial meeting where he asks questions designed to help him understand the client's business and objectives. The key to this process is listening.

> The ability to create, evaluate, and adjust lines of business is poised to emerge as a key differentiator in the marketplace.

"It's about two ears and one mouth and being curious," Shortsleeve said. "It's asking questions. The numbers tell a little bit of a story, but what does success look like? What's keeping you from getting there? Sometimes, clients know the answer, and sometimes they don't."

Shortsleeve often goes through a similar process with existing clients, or he'll just call them with an idea. Because TYS does not bill by the hour, the clients don't have to worry about incurring extra charges talking about their business with the accounting firm. Ultimately, the key is to find out the reasons driving the client's decisions, performance, and goals.

"There are two components: What does success look like? And what will it do to your business?" said Erin DiVincenzo, marketing manager for TYS and Ledgers Inc. "It all goes back to understanding why."

DiVincenzo joined TYS in 2013. The former owner of a marketing and advertising agency, and a former TYS client, DiVincenzo has helped to diversify her new employer's trusted adviser offerings.

"When we do trusted adviser services for clients, we frequently discover they need help with their marketing strategy,"

Shortsleeve said. At that point, DiVincenzo will step in to help the client develop and implement an advertising and marketing strategy. "She basically becomes the quarterback," Shortsleeve said. "She will participate in the implementation, but she's not the one executing it. She'll help them interview consultants, or if you hire someone to do the website or social media, she'll participate in that process."

With the addition of DiVincenzo, TYS boosted the scope of the consulting services it offers, creating extra value for clients, which translates into more revenue for TYS. This evolution of the firm's service offerings took place organically but resulted from the firm's asking questions of its clients and determining what services were most needed and valued.

"Our purpose is to change people's lives," Shortsleeve said. "We can't do that unless we participate in a deeper level than just the financial statement and tax returns."

The Future Is Now

As the accounting profession continues to undergo unprecedented change, more and more firms will have to take a hard look at how and why they run their business. Firms will need to develop the skills to accurately assess market conditions, business opportunities, and their own operations and motivations. The ability to create, evaluate, and adjust lines of business is poised to emerge as a key differentiator in the marketplace.

The approach used in the Thriveal experiment is just one option for accounting firms looking to diversify—or even transform—their business. Firms have many options as they adjust to the needs of the marketplace. It's a process that starts with a look inside the firm—its culture, talent, and goals.

"Building the business model of the future has many elements, with client strategy being one component," said Mark Koziel, CPA, CGMA, vice president–Firm Services & Global Alliances at the AICPA. "Other important factors to consider as you build your model would include firm structure, staffing, culture, and technology. Structure would be the optimum starting point to figure out what you want the firm to look like in five years and what you can do to remain relevant and competitive. Then figuring out who you want to serve, who will help you serve them, and how you will serve them rounds out the building of a full business model." ❖

AICPA RESOURCES

JofA articles

- "Q&A: Should You Dump the Billable Hour?" Feb. 10, 2015, tinyurl.com/oyftxmr
- "From 'Write-Up' to Right Profitable," April 2013, page 24
- "Pricing on Purpose: How to Implement Value Pricing in Your Firm," June 2009, page 62
- "The Firm of the Future," Nov. 2008, page 68.

Go to journalofaccountancy.com to find past articles.

Conference

- Practitioners Symposium and Tech+ Conference, June 7–10, Orlando, Fla.

For more information or to make a purchase or register, go to cpa2biz.com or call the Institute at 888-777-7077.

Private Companies Practice Section and Succession Planning Resource Center

The Private Companies Practice Section (PCPS) is a voluntary firm membership section for CPAs that provides member firms with targeted practice management tools and resources, including the Succession Planning Resource Center, as well as a strong, collective voice within the CPA profession. Visit the PCPS Firm Practice Center at aicpa.org/PCPS.

OTHER RESOURCES

Publication

- *Implementing Value Pricing: A Radical Business Model for Professional Firms*, by Ronald J. Baker, tinyurl.com/kco35g6

Driving Faster Decisions

How continuous monitoring and auditing are enabling HP—and many other organizations—to become more agile

by Ken Tysiac

When management at Hewlett-Packard Co. (HP) identified a concern related to the frequency and volume of manual journal entries, the company's internal audit function initiated a dashboard to enable ongoing evaluations.

HP adopted a continuous auditing and continuous monitoring approach to identify the root cause of such transactions and to enable better decisions through standardized entries made under improved controls. Various governance and compliance teams collaborated to design high-level analytics with drill-down capabilities. They were able to identify and study trends, movements in the accounts, spikes of activity during the period, the nature of the entries, and the individuals who are posting entries. The success of the program, in collaboration with compliance functions and management, has prompted action to reduce the number and risk of journal entries.

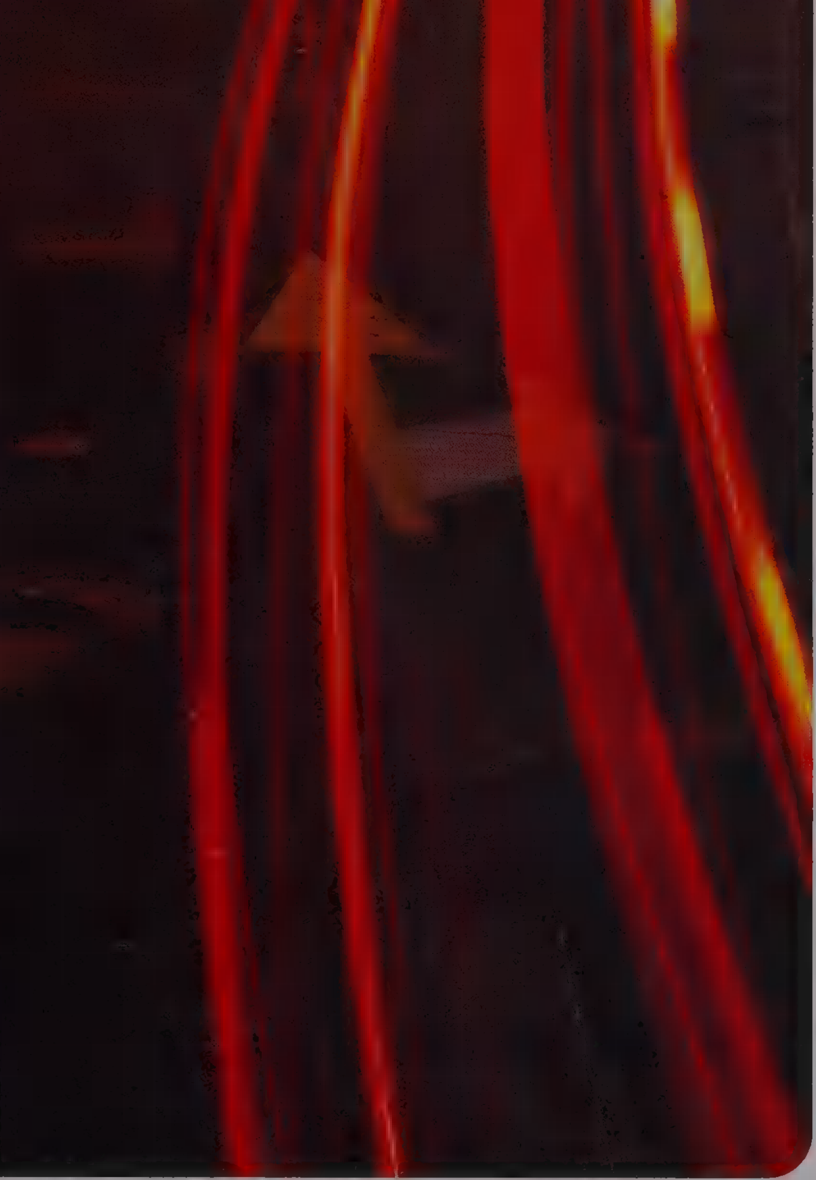
"That's one very simple step forward," said Brad Ames, CPA, a director of internal audit for HP.

In a business world where change occurs rapidly and organizations have access to a seemingly unlimited supply of data, companies want to act on data in real time. Organizations need to proactively anticipate and mitigate risks, and data analysis that enhances the control environment increasingly is becoming a part of that process. Jason Pett, CPA, the leader of PwC's internal audit practice, said internal auditors at leading companies are leveraging data to drive everything they do.

"How do we use data to drive our scoping decisions?" he said. "How do we use data to drive our risk assessment process? How do we use data to [help decide] which audits we should be doing? I think the use of data, leveraging data to totally transform how internal audit performs, is the story."

In this environment, continuous auditing and continuous monitoring are growing as tools for internal auditors to provide more value to their employers. In continuous auditing, the internal audit staff uses technology to analyze data frequently for early identification of outliers. This helps internal audit focus its resources. Continuous monitoring differs slightly from continuous auditing. In continuous monitoring, analytics on key performance metrics are set up for management to review in real time and act on, when necessary. These methods can enhance the timely, ongoing review of financial data and internal control at an organization.

According to the 2014 internal audit capabilities and needs survey conducted by consulting firm Protiviti, skills with computer-assisted audit tools and data analysis are the most-needed competencies in internal audit. These tools and technologies



support continuous monitoring and auditing activities.

The highly regulated power and utilities industry is a leader in using forensic data analytics tools for continuous monitoring, according to a 2014 EY global survey report, *Big Risks Require Big Data Thinking*. A PwC survey report published in 2014 on the power and utilities industry, *Empowering Business Agility: Strengthening Internal Audit's Impact and Value*, found that continuous auditing was rated as very important by 57% of chief audit executives, up from 31% in 2012. A 2013 PwC survey on that industry found that areas where continuous auditing was being used the most were:

- Employee expense and procurement cards (72%).
- Accounts payable, disbursement, purchasing, and other expenses (72%).
- Journal-entry testing (40%).
- Fraud audits (40%).
- Supply chain and inventory (36%).
- Payroll, overtime, and time reporting (20%).
- Operations analytics (20%).
- Financial statement analytics (20%).

"One of the biggest benefits … is ongoing evaluations or analytics that shorten the time for getting management to respond to risk," Ames said. "… As an audit department, you can be more persuasive and enable timely management actions through analytics much more quickly or much more efficiently than you could through an inspection-style audit."

HP has used continuous auditing and monitoring to make improvements in several areas, including:

Simplifying Sarbanes-Oxley Section 404 attestation around IT general controls and application IT controls. Benchmarking configurable automated controls to measure the timing and extent of change optimizes application control testing. The purpose is to track trends and compare changes with a predefined threshold to sustain and carry forward the baseline conclusion with minimal examination (i.e., automated controls that have not changed since the previous audit would be validated without further examination).

Analysis of journal entries and account reconciliation to provide auditors and management with an ongoing view of journal-entry volume and frequency across the business. Manual journal-entry monitoring is designed to isolate key indicators, outliers such as:

- High-value journal entries posted to high-risk accounts.
- Nonfinance users posting journal entries to financial accounts.
- Journal entries posted using the access of terminated users.
- Segregation-of-duties conflicts (i.e., users who have the capability to initiate review and approve journal entries across applications).
- Users posting journal entries even after month-end close deadlines.
- Journal entries with unclear or missing descriptions or explanations.

Sales compensation monitoring, which consists of ongoing evaluation of bonuses and commissions for reasonableness. Factors that would suggest an outlier may include:

- Performance measurement of target vs. actual sales compensation (i.e., out-of-range commissions that do not correspond with performance).
- Recipients of commissions in nonsales functions.
- High-incentive liability levels (i.e., bonus paid in advance).

Monitoring changes to fixed assets' useful lives and depreciation to ascertain if assets are conforming to the company's accounting policy. The dashboard provides a view of the following exceptions for management action:

- Compare and match accuracy of useful life of newly acquired assets based on asset class.
- Highlight outliers of assets that have been assigned a useful life greater than the policy limits.

Monitoring for product warranty fraud. The objective of warranty fraud analytics is to detect potentially fraudulent behavior. Analytics compare data on spare parts that were shipped to customer locations with data on used parts returned to HP to monitor for the following exceptions:

- Parts returned with less value than shipped.
- Parts returned fewer in quantity than shipped.
- Parts returned of a different type from the ones shipped

(e.g., network device shipped, hard drive returned).

- Warranty service cases created by engineers and assigned to themselves to resolve.

A summary view is created to show the number of exceptions of each type and the dollar amount per engineer. Another graphic is created to observe a trend per engineer. The reports are used to select cases for further investigation.

Employee expense monitoring risk indicators to isolate potential errors:

- Questionable spending at restricted establishments or for restricted items and key words (e.g., gift card, premium, or upgrade).
- Incorrect categorization (e.g., nonmeal expenses identified as a meal).
- Card activity in home city.
- Unsubmitted expenses and personal activity on delinquent cards (i.e., high balances that roll from month to month due to personal charges that have not been submitted).

ERP Systems' Role in Continuous Monitoring

Large organizations that have spent a lot of money upgrading their enterprise resource planning (ERP) systems particularly are accelerating their use of continuous monitoring, according to Christopher Wright, a consultant and managing director and firmwide leader of finance remediation and reporting compliance for Protiviti.

He said that since most ERP systems hold data all in one place and routine exception reports are standard in these systems, they give internal audit the ability to create and implement continuous monitoring platforms. This allows internal audit and management to maximize the value of ERP systems and make their organizations more agile.

Wright said the first step for companies looking to begin continuous monitoring is taking an inventory of the tools they already have and seeing what data might be easily used in real time.

"Their ERP system isn't just an expensive word processor," Wright said. "So it actually functions in a way that adds value, eliminates work flow, and improves the control structure in a way that's efficient and cost-productive."

Do Benefits Outweigh Costs?

Nonetheless, cost may be an obstacle to continuous auditing and continuous monitoring for midsize and small organizations that already are facing significant compliance burdens in an increasingly regulated business environment. HP's Ames said the costs may be justified because of the benefits continuous auditing and continuous monitoring provide on two levels.

First, the benefits are seen throughout the entire audit life cycle, from planning to the engagement (which gets more precise conclusions more quickly) to the recommendation and corrective action, when analytics can be set up to sustain the remediation. Second, there can be multiple beneficiaries, including the ethics and compliance, enterprise risk management, and IT security functions.

"When they carry out continuous monitoring, you've got more beneficiaries, more sponsors to whom you can deliver a larger benefit and increase the return on investment," Ames said.

With that in mind, one thing that can seriously inhibit implementation and usefulness of continuous auditing and continuous monitoring is organizational restructuring, Ames said. He said that a compliance team may be in place and working with internal audit as a strong sponsor of continuous monitoring and auditing, only to have management priorities changed by restructuring. That can lead to frustration in implementing and executing continuous auditing and continuous monitoring. (Ames further discusses the conditions an organization must have in place to successfully implement continuous auditing and continuous monitoring, in the sidebar "Do You Have What It Takes?")

The focus on continuous monitoring and auditing does not decrease the need for assurance through the traditional audit reporting that internal auditors have performed for many years. Despite all the technological developments of past years, companies remain focused on the fiscal-year quarterly metrics because of regulatory reporting requirements.

External audit requirements also tie some of the traditional internal audit reporting to the fiscal year. But the continuous monitoring does change the focus of some of the traditional internal audit projects.

"Anytime you're dealing in real time, it shifts the dynamic from

EXECUTIVE SUMMARY

- **Through continuous auditing and continuous monitoring, internal audit is finding ways to provide [redacted] value to organizations.** These techniques use data analytics to identify outliers for further investigation and quicker responses.
- **A first step for organizations looking to implement continu[redacted] auditing and continuous monitoring** is to consider what data already are available that could fuel these techniques. Useful data often already exist on companies' enterprise resource planning systems.
- **Collaboration across the organization is critical to the success of continuous auditing and continuous monitoring.** Management must support projects and be willing to act quickly; risk and compliance functions must be willing partners; and IT must be prepared to provide the technology tools necessary to accomplish the job.

***Ken Tysiac** is a JofA editorial director. To comment on this article or to suggest an idea for another article, contact him at ktysiac@aicpa.org or 919-402-2112.*

Do You Have What It Takes?

Brad Ames, CPA, a director of internal audit for Hewlett-Packard Co., said organizations wishing to be successful with continuous auditing and continuous monitoring must have the following conditions in place:

Support for the vision. Company management needs to be engaged and willing to respond without delay to the outliers that are raised. The audit committee's support can prevent budgetary restrictions from torpedoing a project and help authorize internal audit to get access to data and technology. The information technology function is needed to help internal audit develop the technology and tools for continuous monitoring. IT assists internal audit in accessing and keeping data in a safe place and often needs to provide resources and support over multiple years as internal audit implements continuous auditing platforms.

Standardized data. This is the raw material that makes the whole process possible and transforms an ad hoc analytic into recurring, ongoing monitoring. Establishing audit data standards provides for the routine valuation and efficient exchange of the company's data from multiple sources. The Emerging Assurance Technologies Task Force of the AICPA Assurance Services Executive Committee has developed voluntary audit data standards, which help auditors obtain accurate data in a usable format and are available at tinyurl.com/mr32kwc. These voluntary IT standards create a standardized format for data fields (e.g., naming, formatting, and levels of data fields) and files that are commonly requested from auditors, with the theory being that if file formats are standardized, any company's system would be capable of producing them in the standardized format.

Coordination with second line of defense. The risk management and compliance function—the "second line of defense"—must be willing to work with internal audit to help build tools and then monitor them. Risk/compliance will have a full understanding of business risk that can help auditors plan continuous monitoring and continuous auditing activities around the factors that are critical to the organization's success. Auditors must be able to relate to the business risks and key risk indicators while still understanding the audit objectives and assertions associated with the audit process.

Auditors willing to lead change. Auditors need to become comfortable with analytics that will allow them to look forward in addition to analyzing historical data, Ames said. Addressing emerging risks requires that forward-looking mentality and is a shift from the traditional mindset that some internal auditors are accustomed to.

triage after the fact to saying, 'Here's what we found. Here's what we fixed. Here's what we're doing differently already,' by the time you report to the board. It compresses the dynamic of audit identification and problem-solving. It can compress it in a way that you can report the solution, if not the status," Wright said.

In turn, traditional internal auditing and reporting can also spur additional continuous monitoring that can produce further improvements for the organization. At HP, internal auditors performing traditional fieldwork were asked to identify three to five leading and lagging indicators in the areas they were auditing that would sustain remediation and provide new metrics to monitor.

Meanwhile, Ames has seen the HP internal audit planning function become much more strategic and future-focused. And internal audit is planning collaboratively with the risk/compliance function as a strategic partner.

"It's not just good enough to have the technical capacity and the standardized data," Ames said. "You have to have the coordination and relationship management capacity to plan jointly with the second line of defense and the compliance function. … We have quite a program in HP that builds up [compliance personnel] and trains them, equips them with technology and the standardized data, and sets the expectation for monitoring risk. That requires leadership." ❖

AICPA RESOURCES

***JofA* articles**

- "Shooting Straight: How Internal Auditors Can Be Strategic and Collaborative–While Maintaining Independence and Objectivity," Dec. 2013, page 28
- "Checklist: Internal Audit Oversight," Aug. 2013, page 20
- "Checklist: Beef Up Internal Audit," June 2011, page 20

Go to journalofaccountancy.com to find past articles.

Publications

- *Enterprise Risk Management: Guidance for Practical Implementation and Assessment* (#APAERM14P, paperback; #APAERMO, one-year online access; #APAERM14E, ebook)
- *Essentials of Forensic Accounting* (#PFF1401P, paperback; #PFF1401E, ebook)
- *Strategic Business Management: From Planning to Performance* (#PCG1305P, paperback; #PCG1208E, ebook)

CPE self-study

- Applying the Risk Assessment Standards to Smaller Business Audits (#733578, text)
- Audit Staff Essentials, Levels 1–3 (cpa2biz.com/ASE, one-year online access)
- CGMA Learning Program: Strategic Management Accounting (#165350, one-year online access)

For more information or to make a purchase, go to cpa2biz.com or call the Institute at 888-777-7077

Data Analytics Helps Auditors Gain Deep Insight

Technology provides opportunity to test full data sets rather than just samples.

by Maria L. Murphy, CPA, and Ken Tysiac

Financial statement auditors increasingly need to know more about their clients' businesses. Thanks to advances in data analytics and software, many auditors are finding ways to gain deeper understanding of their clients' organizations than ever.

"The profession is making much better use of the technological advances that we've seen over the last 20–30 years," said James Comito, CPA, the national director of the Professional Standards Group at Mayer Hoffman McCann PC. "So it's pretty exciting stuff, really."

Mayer Hoffman McCann is a top-15 national firm whose clients primarily are private companies with annual revenue ranging from $5 million to $300 million. The firm is reevaluating its audit processes and procedures to make better use of new data analytics capabilities and software that are available, in hopes of providing better service to clients.

The use of data analytics probably has not advanced as rapidly in external financial statement auditing as it has in internal auditing, where many organizations use continuous auditing and continuous monitoring of data to identify risks and anomalies as part of their system of internal control (see "Driving Faster Decisions," page 48). But data analytics has the potential to transform external auditing just as it has changed internal auditing.

The power of data analytics could make it possible for external financial statement auditors to improve audits by:

- Testing complete sets of data, rather than just testing samples.
- Aiding risk assessment through identification of anomalies and trends, perhaps even through comparison to industry data, pointing auditors toward items they need to investigate further.
- Providing audit evidence through comprehensive analysis of organizations' general ledger systems.

Comito said data analytics, combined with traditional auditing techniques, will give auditors a better understanding of their clients.

"I think the analytics can be incredibly powerful, a great tool to learn your clients' business," he said. "But for the foreseeable future, it's still a balance between good old-fashioned getting into contracts and reading them and interpreting them, and the use of analytics."

The possibilities for data analytics technology to change auditing are explored in the white paper *Reimagining Auditing in a Wired World*, published by the Emerging Assurance Technologies Task Force of the AICPA Assurance Services Executive Committee (ASEC).

According to the white paper:

- The profession needs to achieve a "quantum leap" to redesign audit processes using today's technology, rather than using information technology to computerize legacy audit plans and procedures.
- Existing auditing standards that are the framework for audit procedures need to be modified to incorporate the concepts of Big Data and "continuous auditing" and encourage auditors to use technologies that increase assurance beyond minimum required levels.

Audit regulators are watching the technological developments in this area with great interest. Martin Baumann, the PCAOB's chief auditor and director of professional standards, said in a video interview (see tinyurl.com/ngpamqs) that regulators need to make sure auditing standards facilitate possible improvements in auditing rather than serving as an obstacle to progress in this area.

"That's important for us as standard setters to stay on top of that, such that the technology and potential uses of it in auditing don't get ahead of where the auditing standards are," said Baumann, who was sharing his own opinion and not that of the PCAOB or its staff. "We wouldn't want auditing standards to be an inhibitor that might otherwise allow technological audit achievements to move ahead."

Significant changes in audit approach are needed to take advantage of the new environment, according to one of the authors of the white paper, Miklos Vasarhelyi, Ph.D., director of the Rutgers University Accounting Research Center and Continuous Auditing & Reporting Lab.

"The profession is still not doing very much with Big Data, yet," he said. "But the sources of evidence have changed so dramatically that there can be no way that the profession will not use it. The more difficult prediction is when this change will happen. … It will not occur overnight but will be more ad hoc and evolutionary, and changes in audit practice will continue to occur as corporate processes change."

Through its Enhancing Audit Quality (EAQ) initiative, the AICPA is looking to move the profession toward the use of new audit technologies and methodologies that will allow auditors to provide more continuous assurance and will result in more timely and relevant audit reporting. For more information about this initiative, see the AICPA EAQ initiative webpage at tinyurl.com/nn6dnbj.

ASEC, meanwhile, has established audit data standards to identify key information needed and provide a common framework for audits. These voluntary IT standards create a standardized format for data fields (e.g., naming, formatting, and levels of data fields) and files that are commonly requested from auditors, with the theory being that if file formats are standardized, any company's system would be capable of producing them in the standardized format. The audit data standards are available at tinyurl.com/mr32kwc.

Advances in data science can be applied to perform more effective audits and provide new forms of audit evidence. Audit data analytics methods can be used in audit planning and in procedures to identify and assess risk by analyzing data to identify patterns, correlations, and fluctuations from models. These methods can give auditors new insights about the entity and its risk environment and improve the quality of analytical procedures in all phases of the audit.

EXECUTIVE SUMMARY

- **Data analytics technology presents opportunities for auditors to gain a better understanding of their clients' business.** To take full advantage of current technology, audit processes may need to be redesigned.
- **Through analytics, auditors will be able to test complete populations of data,** rather than relying on representative samples for testing. Outliers and anomalies can then be flagged for further investigation.
- **Auditors and students who aspire to be auditors will need to be properly educated in data analytics to take advantage of the technology.** Auditing standards also may need to be updated to accommodate the changes in audit procedures that may be necessary to leverage data analytics.

Maria L. Murphy *(emailmariamurphy@gmail.com) is a freelance writer based in Wilmington, N.C.* ***Ken Tysiac*** *is a JofA editorial director. To comment on this article or to suggest an idea for another article, contact him at ktysiac@aicpa.org or 919-402-2112.*

Technology permits the creation of Big Data that can be analyzed to improve auditors' knowledge about the transactions and balances underlying the financial statements. This can help them obtain better evidence for their audit opinions and understand fundamental causes of restatements, fraud, and going-concern issues. (For more on how the use of new technologies will affect auditors, see the sidebar, "Data Analytics: The Auditor's Role.")

Thanks to technology, audit procedures such as bank confirmations, analytical procedures, and journal-entry testing do not have to be performed on-site by local audit teams. Instead, these tasks can be outsourced to remote teams of specialists and third-party providers, creating opportunities for auditors to focus on higher-risk areas and the potential for fraud.

The white paper recommends that while technology can be used to achieve the same level of assurance more efficiently at a lower cost, a greater benefit would be to achieve a higher level of assurance at a similar cost—resulting in better audit quality for clients and investors and reduced audit risk and liability. For example, computerized data and file interrogation software can be used to perform transaction testing on 100% of a population.

Technology permits more frequent or continuous monitoring of transactions by external auditors. Auditors can benefit from being able to spread audit work throughout the year rather than only during "busy season," identifying potential issues earlier, and having the ability to modify audit plans in response. Companies can benefit from improved audit quality and client service. Continuous reporting and web-based availability of financial information is replacing periodic issuance of financial statements, which may lead to the requirement for continuous audit assurance, the white paper found.

To prepare auditors for these changes, Vasarhelyi said:

Educational needs must be met. Education is needed for students at the university level and for auditors within accounting firms in areas such as information technology, statistics, modeling, and machine learning methods. In addition, Vasarhelyi suggests that the CPA exam should test these areas. "We are kind of in a double bind on this because the examination people say, 'They don't know this stuff, so we can't test it,' but the students say, 'If it is not on the exam, I am not going to study it,'" he said. Many universities are offering courses in these areas and creating new majors, but the existing accounting curricula are full and would need to be changed to accommodate additional coursework.

The AICPA is in the midst of the practice analysis research study that will define the next version of the CPA examination, to be announced in 2016 and launched in 2017. "What we heard from the accounting profession, including educators, was to continue assessment of the basics, increase

Data Analytics: The Auditor's Role

by Ken Tysiac

Regardless of the industry or profession, the prospect of mechanization or automation brings concerns about the potential loss of jobs. But increased use of data analytics in auditing is not expected to diminish the need for skilled and trained auditors.

"The software programs are fantastic," said James Comito, CPA, the national director of the Professional Standards Group for Mayer Hoffman McCann PC. "They can aggregate data and provide us with a whole lot of information. But at the end of the day, it still requires a knowledgeable auditor to stand back from that, analyze that information, and make a determination whether that information is consistent with what the auditor expected, or whether it's not, in which case there is more investigative work that the auditor has to do. And I don't think that will change anytime soon."

As data analytics takes on a larger role in auditing of financial statements, auditors may want to consider:

Planning carefully. While maintaining objectivity and skepticism, auditors may want to inquire extensively with clients about the metrics monitored by clients' management. This effort to understand the business and what's important to management can help the auditors set up data analytics tools in the most useful way for the audit.

Getting IT involved. Auditors may have their firms' IT professionals engage the clients' IT staff to make sure the clients' systems are producing reliable data. Audit data analytics software won't produce the desired results if the data entering the system are not reliable and appropriately precise.

Learning how to use the tools. Younger auditors may be more comfortable at first with the technology than veteran auditors who have been conducting engagements for a long time with little or no use of analytical technology. Firms that plan to use audit data analytics need to have programs in place to train all auditors on how to use the technology.

Maintaining traditional testing skills. "There will always be a need to do a certain amount of detailed testing around certain aspects of U.S. GAAP," Comito said. "You're going to have to read contracts. There are clauses in contracts that have meaning in U.S. GAAP that a pure analytic may not cover."


TODAY
TODAY
Stock Exchange

the assessment of higher-order skills such as analysis, interpretation, and defending positions within an audit, and further explore the assessment of professional skepticism, Big Data analytics, and the integration of topics (for example, an audit's impact on financial reporting, etc.)," reported Michael Decker, vice president–Examinations for the AICPA. "The CPA examination will remain current to the profession in the role it plays as a licensure tool; assessing the minimal competencies of a newly licensed CPA. Reading between the lines, as the profession changes the knowledge and skills required of a newly licensed CPA, so must the examination change in its assessment."

CPA firms should expand their assurance services. These services should grow beyond annual financial statement audit opinions. Businesses have larger assurance needs in the areas of data quality, security, compliance, fraud prevention and detection, and internal controls. CPAs should offer a different value proposition by offering to provide "coordinated assurance" on functions running on different technologies and platforms. "Assurance needs for businesses are much larger than they were 20 or 30 years ago," Vasarhelyi said. "There is a big layer of technology between management and the data. Companies worry about their processes and data quality and correctness, and being 'underassured.'"

Auditors should use Big Data and perform deeper analytics. These procedures can help them better understand their clients' environment and use exception reporting to improve audit quality and detect fraud. Every auditor should have the ability to use stronger audit tools than spreadsheets. They should make use of specialists to perform data analytics as part of the engagement, where available, and work with their clients to incorporate more advanced data analytics throughout the audit program within the IT environment.

Audit procedures should be continuous. Audit procedures should be performed throughout the year, and audit testing should occur more frequently than annually. Auditors should educate their clients on the advantages of continuous auditing, including reduced errors and risk.

Auditing standards need to be updated. Changes in audit approach and procedures are needed to provide the required level of assurance in today's changed business environment. ❖

AICPA RESOURCES

JofA articles

- "Embracing the Automated Audit," April 2014, page 34
- "Technology and CPAs: Visions of the Future," June 2012, page 110

Go to journalofaccountancy.com to find past articles.

Publications

- *Analytical Procedures—AICPA Audit Guide* (#AAGANP12P, paperback; #AAGANP12E, ebook; #WAN-XX, one-year online access)
- *Assessing and Responding to Audit Risk in a Financial Statement Audit* (#AAGARR14P, paperback; #AAGARR14E, ebook; #WRA-XX, one-year online access)
- *Audit Sampling—Audit Guide* (#AAGSAM14P, paperback; #AAGSAM14E, ebook; #WAS-XX, one-year online access)

CPE self-study

- Audit Staff Essentials, Levels 1–3 (cpa2biz.com/ASE, one-year online access)
- CGMA Learning Program: Strategic Management Accounting (#165350, one-year online access)
- Professional Ethics: The AICPA's Comprehensive Course (#732318001, text; #155701, one-year online access)

For more information or to make a purchase, go to cpa2biz.com or call the Institute at 888-777-7077.

Webpages

- Audit Data Standard Working Group, tinyurl.com/mr32kwc
- Enhancing Audit Quality initiative, tinyurl.com/nn6dnbj

White paper

- *Reimagining Auditing in a Wired World*, tinyurl.com/k5rq9o7

BE CPA BRANDED
with a CPA.com Email.
Move your email address from consumer to professional grade with Mail@CPA.com. This best-in-class email client puts your name in front of @CPA.com.
ADD AN EXTRA LAYER OF CREDENTIAL TO YOUR FIRM.
Mail@CPA.com offers two cost-effective and easy-to-migrate email solutions:
• Forward-Only Email at $29.95 per year
• Full-Service Email at $95.95 per year
Both come with a 30 day no-risk guarantee.
@CPA.COM
Offered exclusively for CPAs with AICPA membership. Learn more & enroll:
CPA.COM/EMAIL
The power of smart business.
CPA.COM™

What's Your Fraud IQ?

by Andi McNeal, CPA

The groundwork for effective fraud prevention and detection is found in an ethical staff that is expected to make ethical decisions and then is fully supported in doing so. Organizations that enact robust ethics programs send a clear message to their employees about which behaviors are acceptable and which behaviors are prohibited. Do you know the hallmarks of an ethical corporate culture? Are you ready and able to help institute an effective ethics program at your organization? Take this quiz and find out.

1. According to the Ethics Resource Center, what percentage of workers observed ethical misconduct at their workplaces during 2013?
   - **a.** 14%.
   - **b.** 27%.
   - **c.** 41%.
   - **d.** 73%.

2. Generally speaking, what is the difference between a code of ethics and a code of conduct?
   - **a.** A code of ethics applies exclusively to members of management, whereas a code of conduct applies to all employees.
   - **b.** A code of ethics describes broad ethical standards, whereas a code of conduct describes acceptable behaviors for specific situations.
   - **c.** A code of ethics instructs employees on how to comply with laws and regulations, whereas a code of conduct comprises the company's mission statement and core values.
   - **d.** There is no difference—the terms *code of ethics* and *code of conduct* are synonymous.

3. As part of its current ethics program evaluation, Maple Inc. management is revisiting the company's code of conduct. During a discussion about the existing code, a member of the management team suggests that they should enact a specific code for just the company's executives. Which of the following is one of the goals of an executive-specific code of conduct?
   - **a.** To provide a more stringent set of conduct standards for executives than for the rest of the staff.
   - **b.** To reinforce policies addressing issues faced by all levels of employees.
   - **c.** To establish harsher sanctions than legally required for executives who commit fraud.
   - **d.** To replace the organization's general code of conduct for executives.

4. Which of the following statements regarding an ethics audit is true?
   - **a.** The objective of an ethics audit is to determine whether the organization's financial statements were created in accordance with sound ethical principles.
   - **b.** The same audit procedures should be used in each area of the company to ensure a consistent picture of the company's ethical culture is obtained.
   - **c.** To be effective, ethics audits must be performed by an independent third party.
   - **d.** An ethics audit examines both qualitative and quantitative data to arrive at an assessment of the company's ethical culture.

5. As part of its new ethics initiative, management at Green Co. is holding an ethics training session during which participants are surveyed regarding the specific character attributes they associate with ethical or unethical behaviors. Which of the following types of ethics workshops is Green Co. holding?
   - **a.** A code of ethics assessment.
   - **b.** A code of conduct violations and outcomes discussion.
   - **c.** A personality analysis.
   - **d.** An application of the ethics decision-making process.

6. Which of the following statements regarding organizations' cultural systems is true?
   - **a.** A company's formal cultural system includes the language used to communicate values throughout the organization.
   - **b.** Employees' perceptions of informal cultural systems influence their ethics-related behavior more than formal systems do.
   - **c.** A company's informal cultural system includes the organization's mission and value statements.
   - **d.** All of the above.

7. In the wake of a corporate scandal, XYZ Co. management is expanding the company's ethics program and has decided to create a new position for a chief ethics officer. To be most effective, the individual in this position should:
   - **a.** Report directly to the company's legal counsel.
   - **b.** Have direct, unimpeded access to the board of directors.
   - **c.** Be hired directly by the company's vice president of operations.
   - **d.** Be exempt from performance goals to boost independence.

8. Which of the following is NOT a recommended practice for incentivizing employees' ethical behavior?
   - **a.** Providing employees with a list of general ethical qualities that they should strive for to be rewarded.
   - **b.** Allowing employees to report instances of or other employees who exhibit exemplary ethical behavior.
   - **c.** Including ethical behavior as a formal part of all performance evaluations.
   - **d.** Empowering managers to reward employees who exhibit a high level of ethics.

Answers

1. *(c)* The most recent National Business Ethics Survey conducted by the Ethics Resource Center (ERC) found that 41% of private-sector employees witnessed misconduct at their organizations during the 12 months preceding the study. This finding is a record low for the ERC's surveys and reflects some potential good news regarding the effectiveness of many organizations' ethics programs. Another positive note from the ERC survey is the decline—from 13% in 2011 to 9% in 2013—in the percentage of employees who reported feeling pressure to compromise their ethical standards on the job. However, 60% of the

incidents of observed misconduct were perpetrated by supervisors and managers, and 67% of the misconduct involved multiple acts or ongoing unethical behavior, revealing the need for companies to continue taking proactive steps toward building an ethical culture.

2. ***(b)*** A code of ethics and a code of conduct are both integral parts of an organization's ethics program; in many organizations, the two codes are collectively referred to as the *ethics policy*. Although the two codes work in tandem to provide ethical guidance to all employees, they serve different purposes and contain different information to meet that objective. A *code of ethics* is a principles-based code that describes broad ethical aspirations, standards, and values that support employees in making judgments about the underlying ethics of varying situations. In contrast, a *code of conduct* is a rules-based code that describes acceptable and unacceptable behaviors for specific situations that are likely to arise, thereby removing the need for judgment in many circumstances. In essence, the code of conduct gives substance to the code of ethics; consequently, the code of ethics tends to be straightforward and concise, while the code of conduct is usually more detailed and much longer.

3. ***(a)*** A company's executives face different—and often more serious—ethical dilemmas than the rest of the staff. And the choices executives make typically have a much greater impact on the organization. Since 24% of misconduct and 19% of frauds involve organizations' senior leaders, specific ethical guidance for company executives sends a clear message about expected ethical conduct from the top down. An executive-specific code of conduct should be in addition to—not in place of—the general code of conduct, and should address issues that are specifically applicable to management, such as conflicts of interest and relationship issues, protection of confidential information, financial reporting and disclosure issues, influence on independent auditors, and requirements for reporting to the board of directors and audit committee. Creating a separate code of conduct for executives also demonstrates to other staff members and outside parties the higher standards to which management is held. Further, because senior leaders are the ones setting the standard for acceptable behavior within the company, enacting more stringent ethical requirements for those individuals supports and emphasizes a strong tone at the top.

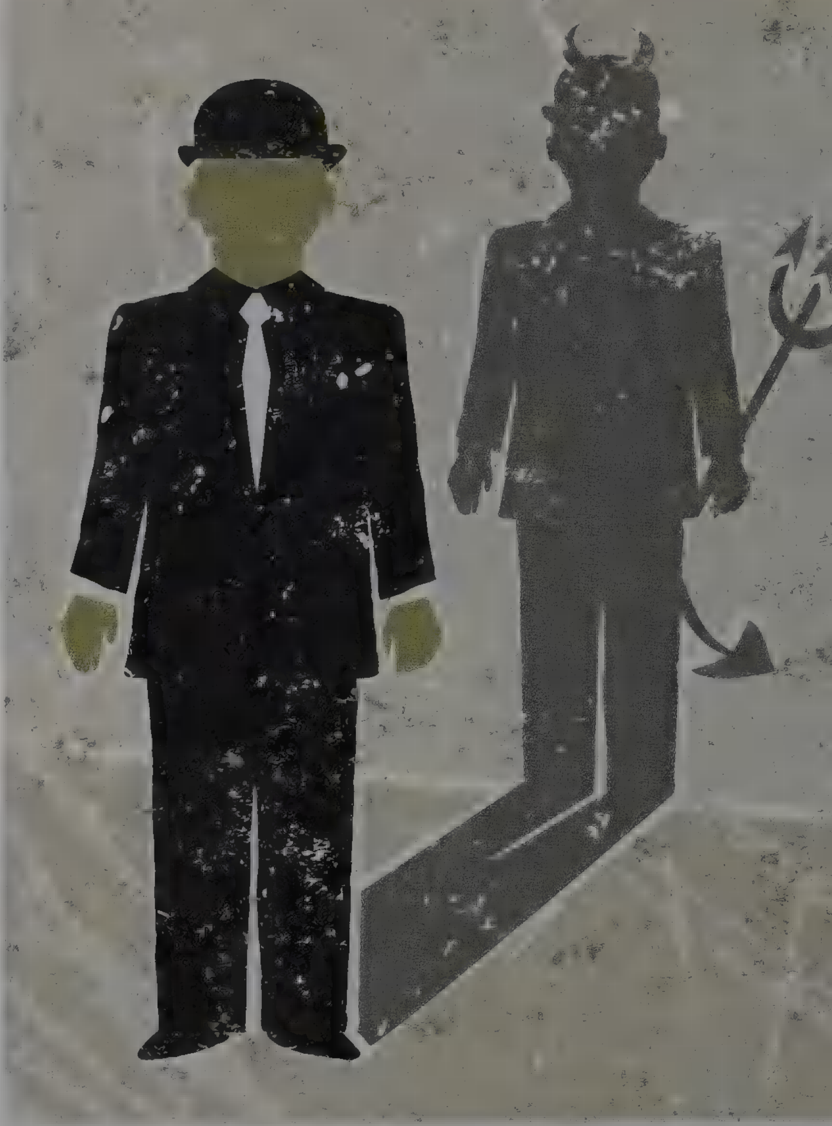
4. ***(d)*** According to the Society for Human Resource Management, an ethics audit is "a comparison between actual employee behavior and the guidance for employee behavior provided in policies and procedures." By its nature, this type of assessment relies heavily on qualitative or subjective information; however, the ethics audit team should also consider use of quantitative, measurable data—such as employee performance review scores and helpline metrics—wherever possible. Additionally, while an ethics audit conducted by an independent third party will yield more objective results, ethics audits are often conducted by the organization itself. If the audit is conducted by an internal team, the team should consist of staff members from various functions such as HR, compliance, legal, and internal audit.

Procedures performed as part of an ethics audit typically include:

- Reviewing the company's ethics-related policies and procedures against best practices, expected and actual outcomes, and benchmarking data.
- Interviewing employees about the company's culture and commitment to ethics.
- Observing processes for adherence to ethics-related policies and procedures.
- Analyzing the frequency, significance, and trends in known misconduct.
- Analyzing trends in reports of wrongdoing by employees and others.
- Examining how previous ethical breaches were handled.

- Asking management what the company has done to prevent repeat occurrences of past breaches.

The audit team's selection and application of such procedures should be based on the specific relevant ethics risks in each area (e.g., conflicts of interest in sales, falsifying company financial data in accounting, and bribery in geographic regions where such practices are common). Using this risk-based approach, the goal of the ethics audit should be to identify gaps in the company's policies and practices where additional guidance or requirements would better serve employees in making ethical decisions.



5. *(c)* If conducted effectively, ethics training can foster a culture of trust. While there is no single best way to train employees in ethics, training sessions are typically most effective when they are conducted live, led by managers, and held in small groups. Ethics workshops provide a more interactive and personal—and, thus, a better retained—training experience than online or lecture-style programs. Workshops can be conducted using a variety of approaches, but the goal is to provide discussion-driven, applicable, and actionable learning to all employees. Examples of some forms of ethics workshops include the following:

- *Personality analysis*, in which employees participate in surveys that measure the character attributes associated with ethical or unethical behavior (e.g., conscientiousness, organizational citizenship, social dominance, and individualism/collectivism).
- *Code of ethics assessment*, in which employees review the ethics code, assess how well the organization is living up to it, note areas of strength, develop strategies to improve weaker areas, and discuss whether any provisions of the code should be added, removed, or revised.
- *Code of conduct violations and outcomes discussion*, in which actual cases of code of conduct violations and the resulting punishments are discussed.
- *Application of the ethics decision-making process*, in which employees are walked through the ethical decision-making process using real-life situations and collaborating to derive moral solutions.
- *Application of the ethics code to a specific situation*, in which employees are provided with several real-life situations and asked to determine whether specific behavior complies with or violates the ethics code.
- *Ideal employee assessment*, in which a profile of an ideal ethical employee is developed and employees assess themselves against this ideal to analyze their strong points and shortcomings and then develop strategies for transforming their weaknesses into strengths.

6. *(b)* In any organization, two ethical cultural systems are at play: the formal system and the informal system. The *formal cultural system* is composed of the policies and programs that are formally established and adhered to in an effort to build and boost the company's ethical culture. Elements of a formal cultural system include the organization's mission statements, core value statements, ethics policies, hiring processes, orientation and training programs, and performance-management systems.

In contrast, the *informal cultural system* involves those symbolic traits that influence employees in a more subconscious way, such as company leaders' responses to crises, the issues and situations that leaders systematically pay attention to, the behavior that is celebrated as part of company rituals (e.g., community service days, awards to top salespersons), and the language used to communicate values throughout the organization. Employees' perceptions of informal cultural systems tend to influence their ethics-related behavior more than the formal systems, so attention to and proactive management of these systems is especially crucial.

7. *(b)* As companies embrace the importance of fostering an ethical culture from the top down, many organizations have created a leadership position charged with maintaining, monitoring, and continually improving the ethics program. Whether combined with the duties of the chief compliance officer or divided into a separate chief ethics officer role, a C-level official focused on ethics can serve as an embodiment of the organization's desired ethical culture. The chief ethics officer role is typically charged with managing the formal and informal components of the entity's ethics program, as well as leading the response to any potential violations thereof. However, simply appointing a chief

ethics officer to the executive team does not ensure that the organization's ethics program will be effective; the individual must also be provided sufficient authority to carry out these responsibilities. To ensure that the chief ethics officer is positioned to be most successful, he or she should:

- Be hired (and fired) only by the board of directors.
- Report directly to the board of directors or CEO.
- Have direct, unimpeded access to the board for purposes of reporting potential issues in order to mitigate the potential for management interference.
- Be held to performance goals and metrics set by the board and CEO.
- Be independent and free from conflicts of interest, influence, and fear of retribution from parties inside and outside the organization.
- Have the necessary resources to serve as a key member of the leadership team.

8. *(a)* Most organizations have performance management programs in place to address and discipline ethical breaches. But far fewer entities have implemented measures to formally incentivize desired behavior. In other words, for many companies, the stick is present, but the carrot is missing. To be fully effective, a comprehensive ethics program should include mechanisms to address both angles of encouraging ethical behavior.

Perhaps the most common method of incentivizing ethical behavior is to incorporate ethical considerations into employee performance evaluations. Requiring an assessment of employees' ethics ensures that management evaluates employees not only on which performance objectives they met, but on how those goals were achieved. To reinforce the importance of these factors, the results should be considered in determining the employees' bonuses and salary increases. The results should also be a key factor in all promotion decisions. Additionally, this type of assessment should carry as much weight—or even more—in executives' performance evaluations as they do in staff-level employees' performance evaluations.

Providing managers with the authority to reward employees who exhibit a high level of ethics, such as with a small gift or bonus, a one-on-one lunch, or some other incentive, is another effective way to incentivize ethical behavior. For example, if a company has a gift card program for rewarding outstanding employee efforts, management should include exemplary ethical behavior as a category of rewardable behavior, just as it would exceptional teamwork, problem-solving, or innovation.

Another mechanism to emphasize the importance of ethics is to provide employees with a means to submit real examples of excellence in ethical decision-making or behavior that they have observed in the organization. Management can publicly acknowledge and praise the examples received, as well as consider providing other rewards to the ethical employee if the situation merits. This form of reverse hotline, in which management seeks to collect reports of positive behavior, rather than just ethical breaches, highlights the importance the company places on detecting misconduct and fostering ethical conduct.

Whatever reward mechanisms management enacts, a large part of successfully incentivizing employees to act ethically is to define specifically what type of behavior company leadership considers ethical. A clear and helpful way to do this is to tie these expectations to the company's value statements. Examples of such expectations for ethical behavior might be:

- Displaying integrity in all professional situations.
- Being truthful in dealing with customers, co-workers, suppliers, partners, and others.
- Treating all customers, co-workers, suppliers, partners, and other individuals fairly and respectfully.
- Exhibiting a commitment to serving the community as a whole.

As with any other performance measurement, the examples must be observable behaviors to facilitate witnessing, monitoring, and rewarding—or correcting, reprimanding, and punishing—specific incidents based on the clear criteria provided.

Scoring

If you answered all eight questions correctly, congratulations. Your thorough knowledge of effective ethics program design will help you effectively in the fight against fraud and misconduct. Keep up the good work.

If you answered six or seven questions correctly, you're on the right track. Continue to build on your knowledge of ethics and fraud prevention programs.

If you answered fewer than six questions correctly, you may want to brush up on your knowledge. Enhancing your understanding of effective ethics program components will help ensure that you have what it takes to keep your organization protected from fraud. ❖

Andi McNeal *(amcneal@acfe.com) is director of research for the Association of Certified Fraud Examiners.*

To comment on this article or to suggest an idea for another article, contact Jeff Drew, senior editor, at jdrew@aicpa.org or 919-402-4056.

AICPA RESOURCES

JofA articles

- "What's Your Fraud IQ?" Feb. 2015, page 48
- "What's Your Fraud IQ?" Oct. 2014, page 34
- "What's Your Fraud IQ?" Aug. 2014, page 38
- "What's Your Fraud IQ?" June 2014, page 40

Go to journalofaccountancy.com to find past articles.

You Made Partner: Now What?

Becoming a partner requires a new perspective on leadership, goals, and strategy.

by Courtney L. Vien

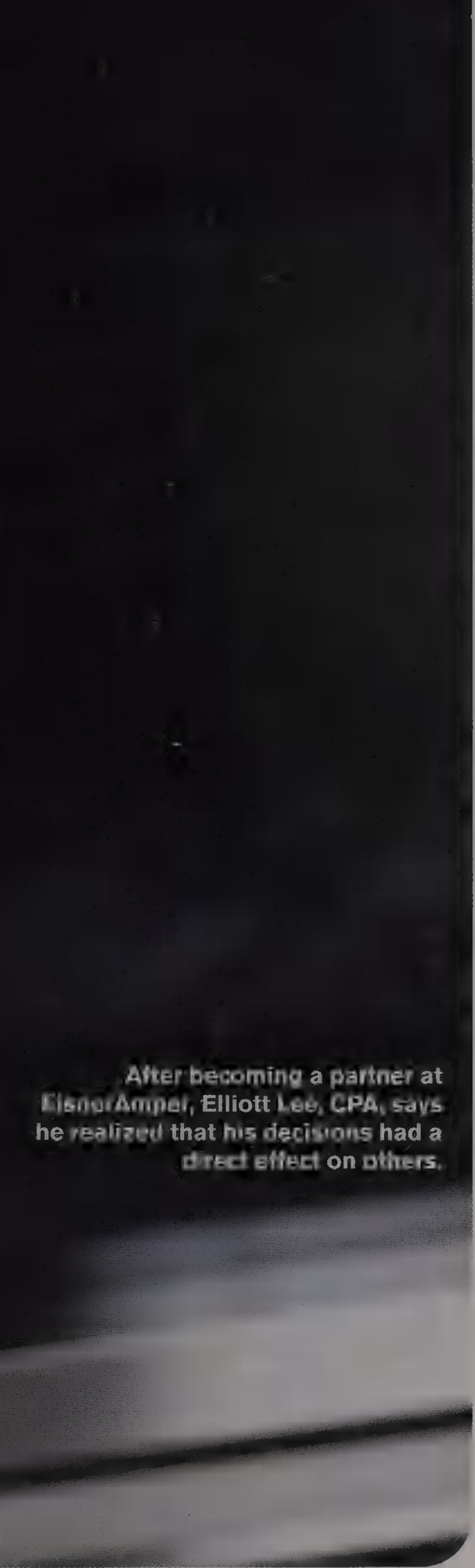
At first, Elliott Lee didn't think being a partner was much different from being a senior manager. "The first three months after I made partner I felt like nothing changed," he said. "I was still primarily worried about executing my day-to-day work."

Then, a director he once reported to came to his office and said, "I'm looking to you for direction on where the firm is going."

"I thought, 'Wow, I really am in charge now,'" said Lee, a CPA who has been a partner in the disputes and investigations group at EisnerAmper in New York City for about a year and a half. "It gave me pause in terms of how I viewed myself. I realized I had to shift my mindset from simply doing my job to creating new business and forming a niche for myself in a saturated market."

A Whole New World

Firms put much time and effort into preparing prospective partners for their new role. Yet, as Lee can attest, the transition



After becoming a partner at EisnerAmper, Elliott Lee, CPA, says he realized that his decisions had a direct effect on others.

from senior manager to partner requires a significant change in outlook that isn't easy to completely digest until an accountant actually becomes a partner. New partners must view themselves not just as employees, but as business owners. They're no longer responsible just for themselves and their subordinates, but for helping set the direction of entire practice areas. They're asked to create business, drive strategy, grow as leaders, act as firmwide role models, and become more involved in their communities. And, after rising through the ranks from a junior role to a senior role to a management role, they're now tasked with setting and realizing their own career milestones.

The change in mindset required of new partners is so significant that it sometimes can take them a year or two to settle in to their new roles. Steve Kangas, CPA, who has been an audit partner with DK Partners in Austin, Texas, for four years, found he had significantly more responsibilities as a partner than he did as a senior manager. "I went from meeting the expectations of my bosses to meeting the expectations of my clients, as I was now running the business aspect of things," he said. "I spent my first couple of years coming to terms with my new responsibilities."

New partners need to learn that they can no longer handle both their new and old responsibilities and be successful. As driven, ambitious people, they can find it hard to relinquish control over aspects of their jobs.

But learning to delegate is a necessary skill, said Jodie Hewitson, CPA, who has been a tax partner at Tanner LLC in Salt Lake City for three years. "We like to think we're all superhuman and that we can do everything ourselves," she said. "But when you're given new responsibilities on top of your old ones, you realize you have to hand a lot of your old duties over to others. You realize that certain people are now better suited to handling aspects of your job than you are because they have different skill sets, more time, or are ready to take on new challenges themselves."

Aligning Goals With Firm Objectives

To become partner, accountants progress through a strict hierarchy, climbing the ranks from junior associate to manager to senior manager to director. Once they become partners, though, career milestones typically aren't as clearly defined. "You do feel uneasy when you're no longer moving through a set structure," Lee said. "It's a different world. You determine your own objectives based on the things that the firm tacitly expects of you."

Some firms do have formal goal-setting procedures at the partner level. At Tanner, partners report to a managing partner with whom they have regular accountability meetings. At audit partner Jean Smith's firm, Ketel Thorstenson LLP in Rapid City, S.D., partners have yearly evaluations. At these meetings, Smith, a CPA, said, "We have fun and challenging discussions about our career paths. We set goals for everything from staffing issues to process improvement, soft skills, technical skills, marketing, and client development, and we track our progress on them throughout the year."

New partners soon discover that their role enables them to set goals based on their skills, personalities, interests, and their firms' needs. Hewitson, for example, who is her small firm's only female partner, has focused on improving the organization's onboarding process and increasing the visibility of female associates. Kangas is helping his firm make the transition to a perpetual life firm model (one that will continue after its founder retires). Other new partners set their sights on attaining new titles such as practice leader or managing partner, or seek to become the heads of committees at their firms or state societies.

Smith became partner at a time when her firm had just acquired another practice, and so focused on "melding the two cultures." Now, she's turned her efforts toward change management. "The way we operate the firm is changing, technology is changing, and we have different generations of employees who need different things in their careers," she said. "I have a lot to offer in terms of helping the firm grow as the environment changes."

Shifting Focus From Self to Others

Perhaps the biggest mental shift new partners have to undergo is learning to concentrate on the firm's growth as much as

Jodie Hewitson, CPA, says she learned to hand over responsibilities and duties to others once she became a partner at Tanner LLC.

they do their own. "As a partner, you're no longer the center of your universe," Lee said. "Your actions affect so many other people that your priorities need to shift. It's no longer about how you make yourself relevant, but about how you drive business and create strategy." His decisions, he said, had a direct impact on morale: "I saw that my attitude and whether I won or lost business did affect the staff."

Partners often find they need to focus on others' professional growth as much as, if not more than, their own. "As a partner, your role is more about leading and helping others deliver on their expertise than being the expert yourself," said EJ Nedder, a partner at McGladrey. "You manage client relationships while growing and mentoring people."

Hewitson jokes that her new role as partner makes her wish that she'd taken more psychology classes in college because so much more of her job now involves "coaching and developing people and attending to their emotional needs."

"There's an art to working with employees," she said. "Some days I take care of employees as much as I do clients."

New partners may even find themselves mentoring the next generation of their firm's leaders. "You have to think about how you help that next person become partner," Nedder said.

Soft Skills Are Essential

Accountants need both technical and soft skills to advance to partner. That development doesn't stop after making partner. Most young partners have an area of

EXECUTIVE SUMMARY

■ **New partners undergo a shift in mindset** from employee to business owner. CPAs who have recently become partners report paying increased attention to leadership and shaping strategy for their business area or firm.

■ **New partners must create their own goals** now that they no longer have a set career ladder to climb. Examples of these goals include attaining titles such as managing partner or committee chair, improving the firm's change-management procedures, and increasing the visibility of women at their firm.

■ **Partners often concentrate on developing others** rather than focusing on just their own career goals, new partners find. They become role models and mentors to the next generation of their firm.

■ **Newly promoted partners must be well-rounded and further develop their soft skills.** Networking and relationship building are two key skills new partners most want to hone.

■ **New partners should not be afraid to seek the advice of other leaders in their firm.** They should also avoid working so hard that they risk burnout.

Courtney L. Vien is an associate editor for the AICPA. To comment on this article or to suggest an idea for another article, contact her at cvien@aicpa.org or 919-402-4125.

expertise they're known for, be it technical knowledge or business or staff development. After being named partner, they tend to concentrate on becoming more well-rounded by improving their skills in other areas.

"As a young professional, you're a generalist," Nedder said. "Then, you become a deep subject matter expert with the skills needed to do the technical work. As you grow into a leader, you start becoming a generalist again." Hewitson sums it up this way: "One of the biggest things you learn is you can't just be a technician and be a successful partner."

New partners also must improve their soft skills. "I have had to build stronger relationship skills, especially with staff," Smith said. "It's different when you're a partner. People don't come and talk to you as much. You have to push yourself to become part of their world."

A partner with Ketel Thorstenson LLP, Jean Smith, CPA, says partners have to build their relationship skills.

Smith has found that she needs to be more proactive with both staff and clients. "The big picture is changing in accounting," she said. "It's not just crunching numbers and dealing with software. You have to work on improving your relationships with clients." She's working on training her staff to adapt to these changes in the profession as well.

Networking is another skill that is even more vital to new partners, who often work to become more visible and involved in their communities. Hewitson, for example, has joined a Utah Association of CPAs task force to help retain and advance women in the profession. Nedder serves on his company's board, gives presentations on technical topics, writes articles, and attends networking and industry events.

"You're the face of the firm," he said. "You need to be out in the market. The more so, the better."

What New Partners Need to Know

To help adjust to the changes, newly minted partners should seek guidance from more experienced colleagues. "When you make partner, you sometimes think that you're supposed to know everything, but really you don't," Lee said. "You can't be afraid to go to resources within your firm and ask for help."

Hewitson also found it helpful to lean on those around her for support. "Develop your own personal board of directors that you can share your concerns with," she said. "They give you additional confidence and advice to help you adapt to your new role."

New partners sometimes feel they need to prove themselves by working extremely hard. But the young partners interviewed for this article counseled against overwork, noting that taking on too much can lead to burnout. Nedder said that finding balance is a key to success. "Be well-rounded, not just in your professional but in your personal life," he said. "Don't think you'll be successful just by working harder all the time. You need down time to regenerate."

How can new partners know whether they're successful? "You need to look at both the metrics and the intangibles," Nedder said. "The reality is, this is a people business and a service business.

"Measure your success in terms of the growth of the business, in client satisfaction, and in how well you're developing your people," he said. ❖

AICPA RESOURCES

JofA articles

- "How to Speed the Path to Partner," March 2014, page 28
- "The 10 C's of Great Leaders," June 2013, page 33
- "How to Drive Partner Accountability and Unity," Feb. 2013, page 32

Use journalofaccountancy.com to find past articles.

Conference

- Emerging Partner Training Forum, June 18–19, Durham, N.C. (#EPF15D), or New York City (#EPF15NY)

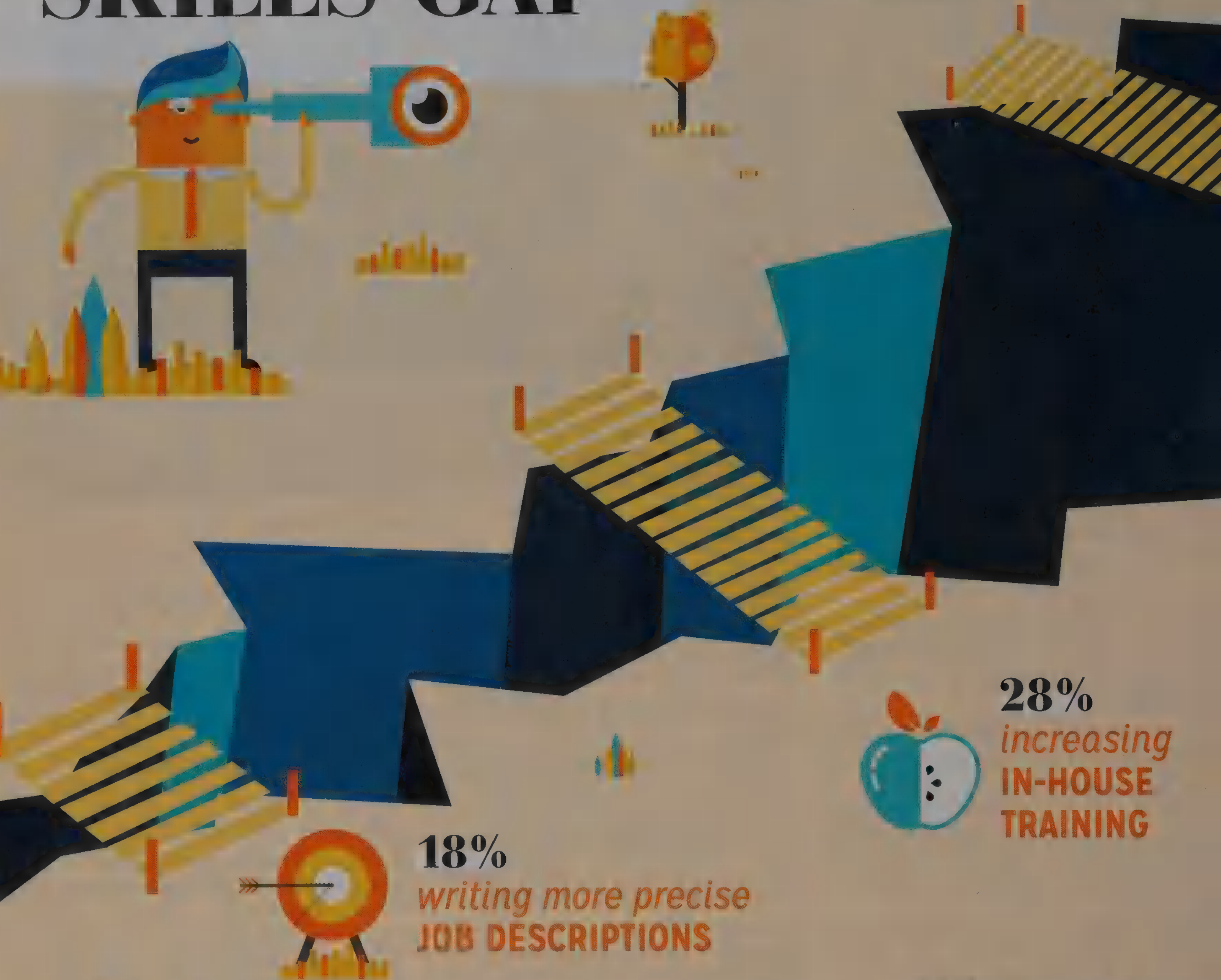
For more information or to register, go to cpa2biz.com or call the Institute at 888-777-7077.

Owner Development Section

Membership in the Owner Development Section of the Human Capital Center provides guidance to firm owners on how to be confident in their leadership skill set to build a stronger and more secure firm through partner unity, accountability, and mentoring. Visit the Human Capital Center at tinyurl.com/qhmawk7.

WORKING to close the SKILLS GAP

It's getting tougher to find the applicants you need. In fact, a recent report found that **68% of CFOs cited difficulty finding applicants** with requisite skills, up **5 PERCENTAGE POINTS** from the previous year.[1] Here's how employers are filling their top positions, despite the increasing competition, according to an AICPA survey.[2]



28% *increasing* **IN-HOUSE TRAINING**

18% *writing more precise* **JOB DESCRIPTIONS**

Why act now

Of respondents to a recent AICPA Business & Industry Economic Outlook Survey:

25% had lost out on top candidates.

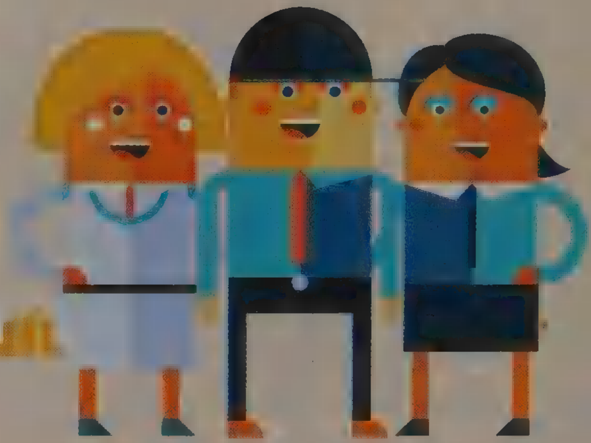
26% have had important jobs open for an extended period.

27% have had to settle for less-than-ideal candidates.

1 Robert Half survey of more than 2,100 CFOs. **tinyurl.com/kiczneq**. 2 AICPA Business & Industry Economic Outlook Survey (4Q 2014). **tinyurl.com/pvure7w**.

20% *offering* **OTHER PERKS**
401(k) match, employee stock options, or an enhanced benefits package

35% *offering* **HIGHER SALARIES**



41% *promoting* **FROM WITHIN**

Innovating the search

Higher salaries, extra perks, and in-house training aren't the only ways to get the talent you need. PwC's 18th Annual Global CEO Survey[3] revealed how organizations are innovating in their efforts to attract and develop top talent:

(Percentages reflect those who agree or strongly agree.)

71% *actively* **SEARCH** for talent in different geographies, industries, and/or demographic segments.

78% *always use* **MULTIPLE CHANNELS** to find talent, including online platforms and social networks.

81% *always* **EQUIP** employees with new skills through continuous learning or mobility programs.

81% *look for a much* **BROADER RANGE** of skills in hiring than they did in the past.

CLEARLY, THE SKILLS GAP REMAINS FORMIDABLE—BUT IT'S SURMOUNTABLE. Employers are deploying a number of proven strategies, along with more innovative ones such as tapping new channels and casting a wider net. How is your business closing the gap?

3 PwC's 18th Annual Global CEO Survey, **tinyurl.com/kr8lahv**

Staying Focused at the Top

One expert's perspective on issues facing today's boards of directors

by Sabine Vollmer

A board of directors has a lot on its plate, especially when the company it oversees does business globally. There are an increasing number of regulations to comply with, from anti-corruption laws to international tax laws, a changing mix of potential threats to the business to consider, and strategic decisions to be made on which new markets or products to explore. With so many pressing corporate governance issues to deal with, it's easy for a board to lose focus.

Olivia Kirtley, CPA, CGMA, is steeped in corporate governance issues. As the new president and board chairman of the International Federation of Accountants (IFAC), she is bringing to bear her knowledge as a business consultant on strategic and corporate governance issues and nearly 20 years of experience as a member of boards of directors to advance the profession.

Her professional path led her from a predecessor of EY to vice president of finance and CFO of Vermont American

Corp., a global manufacturer that was publicly traded until taken private by Emerson Electric Co. and Robert Bosch GmbH. In the mid-1990s, she started serving on boards of directors and has since been named by the National Association of Corporate Directors as one of the top corporate directors and governance professionals in the United States. Kirtley currently serves on the boards of three U.S. companies: the financial services holding company U.S. Bancorp; the pizza-delivery chain Papa John's International; and ResCare, a large private service provider to the elderly and people with disabilities.

"You have to decide strategically what the proper level of risk is, what your risk appetite is, and how that matches your people skills."—Olivia Kirtley

Here's what Kirtley, a member of the AICPA governing Council and former chair of the AICPA board of directors, said she thinks about corporate governance issues such as attacks by hackers, the looming risk of reputational damage in the age of social media, and international tax laws that can be in conflict:

What's top of mind these days for companies and boards in regard to strategic, risk, and compliance issues?

Kirtley: In today's global and often unpredictable business environment, boards have an important and critical role to play in overseeing strategic and risk issues. Compliance is also a very challenging issue right now with all the regulatory activity and new laws. It is a board's job to make sure the company is in compliance, but, at the same time, board members must maintain focus on the strategic direction of the company, because the world continues to change, and the strategy and the risk change accordingly.

Businesses operate to take risks, because with risks come rewards. You have to decide strategically what the proper level of risk is, what your risk appetite is, and how that matches your people skills. We are in a very complex global environment, and so you have to have the ability to analyze the risks that you are taking and relevant experience in various parts of the world to truly understand what risks are embedded in the strategies that you undertake.

It's very easy to allow compliance issues to dominate your time. You have to be very disciplined so that everyone doesn't get drawn into that very demanding area.

Managing the agenda of a board meeting—how you schedule the meetings, what to bring before the various committees and the board, and making sure that you continuously engage in dialogue about strategy—is an important tool to keep board members disciplined and focused.

Many companies set their agenda for the whole year for all of the meetings in the organization. The governance committee will often review and approve the meeting agendas for the entire year. It's not that they can't be changed based on circumstances, but that's one way to make sure that you're really having a proper allocation of time and that the board is covering everything that is important throughout the year.

How much time are boards spending on cybersecurity right now, and do board members have the technical proficiency to provide adequate governance in this area?

Kirtley: Cybersecurity is a very hot topic right now. There are a lot of industry-coordinated efforts to try to inform each other, so if it's being encountered at one company, other companies know about it, which helps with managing the issues.

As board members, we can also call in subject matter experts to advise the company and the board and to have an independent view of whether systems and controls are as robust as they should be. Another area that we look at is broadening the use of internal audit, which means that assessing talent, skills, and relevant experience on the audit staff is critical.

Olivia Kirtley, CPA, CGMA, president and board chairman of the International Federation of Accountants

Companies are experiencing a constant barrage of cyberattacks. Looking at some of the recent breaches, they've gotten in through one of the vendors or one of the third parties. What is more and more challenging is that you don't just have to look at the controls within your company and make sure that you're as strong as you can be. You also have to be aware of the controls in place for the people and organizations with access to your systems to provide third-party services.

Risk in general—and, particularly, reputational risk—has become a big area of concern for many companies. How are boards helping companies manage this?

Kirtley: First of all, strategy and risk must be considered together—to know what risks are embedded in the approved strategy. Boards are concerned with enterprise risk management plans and controls, and how management focuses on emerging issues. This includes things like social media, what your risk mitigation plans are, what your response time would be, and whether you have expert advisers that

could be on call in the event you did have a critical issue. It's sort of like a crisis management plan, quite frankly.

In the area of reputational risk, things can go viral quickly. If you do not have immediate awareness of something that is out there in social media, or if you don't handle whatever the event is very quickly, in the first few hours, then the issue can get away from you quite rapidly, and that increases your reputational risk.

Also, part of the board's job is making sure that internal controls and risk infrastructures within companies have the proper oversight and management involvement before any issue ever gets to the board.

Some boards have separate risk committees; others oversee risk in the audit committee. On some boards, it's a general board function. So while every board has its own particular structure, the important thing is that there is a well-defined and well-functioning risk management and oversight process.

What role does the board perform in setting a strategic vision for companies right now?

Kirtley: Boards always take an oversight and advice role. You want to make sure management is focused on the strategic vision and strategic direction and engages in the dialogue with the board. You have board members with a lot of experience and expertise and insights, and so you want to take advantage of that in setting the strategy. And as I said before, strategy and risk go together. You have to make sure there is general agreement between management and the board regarding the risk embedded in that strategy.

As a director of a financial services company for the past eight years, you're well aware of the increased regulatory oversight of the banking industry following the global financial crisis. Where do you see regulatory oversight of the banking industry going in the next five to 10 years?

Kirtley: Not only do we have new regulations, we have new regulators. Part of what came out of the financial crisis is the Consumer Financial Protection Bureau. There is also somewhat of a rebalancing of who is responsible for what.

The banking and financial services industry and its regulators are adjusting to the new regulatory structure and environment. I think it's going to remain, at least in the short term, at this level of intensity. And the demands on the companies are tremendous. They are adding staff in the areas of compliance and internal audit very rapidly to meet all the regulatory requirements and demands. I don't see that changing in the near term.

The bar has been raised, as far as the expectations and the attention given to compliance and regulatory matters. The industry has used the services of accounting firms and other advisers to meet requirements and timelines of new regulation and new regulators.

What Olivia Kirtley Wants to Accomplish at IFAC

Olivia Kirtley has a unique perspective as the first IFAC president with operational experience in business and industry and as the first woman at the helm of the global organization. These traits flavor what she wants to accomplish in the position that she will hold for the next two years, and how she plans to pursue those goals.

"My goals and objectives are twofold," Kirtley said. "One will be external focus, and the other will be internal focus.

"The external focus will be on interacting with regulators, governments, and professional accountancy organizations around the world, and strategically looking at what we should be doing to maximize the value and effectiveness of the global profession in serving all stakeholders and the public interest.

"From an internal standpoint, how IFAC operates and how we disseminate and coordinate knowledge and among IFAC member bodies in 130 countries is very, very important. Finding more ways to leverage technology and share knowledge and resources is a very keen focus, because the potential benefits are tremendous."

Expect her to travel a lot, she added, talking to the regulatory community and member bodies, and listening.

AICPA RESOURCES

JofA articles

- "Evolving Role of Finance Among Top Issues at World Congress of Accountants," Nov. 13, 2014, tinyurl.com/mkcbafc
- "CPAs as Audit Committee Members," Sept. 2003, page 32

Go to journalofaccountancy.com to find past articles.

CGMA Magazine articles

- "Ingredients of an Effective Audit Committee," Nov. 14, 2014, tinyurl.com/l5wy6mf
- "Critical Skills Needed for Finance to Cut Through Complexity," June 24, 2014, tinyurl.com/npncgep
- "How to Make a Corporate Board More Effective," March 14, 2012, tinyurl.com/qj2td85

Go to cgmamagazine.org to find past articles.

Publications

- *The Best of Boards: Sound Governance and Leadership for Nonprofit Organizations* (#091040, paperback; #091041PDF, online access)
- *Case Studies on Enterprise Risk Management Implementation* (#PCG1202E, ebook)

CPE self-study

- Fraud Prevention, Detection, and Response (#159966, one-year online access)

For more information or to make a purchase, go to cpa2biz.com or call the Institute at 888-777-7077.

There is a great need for accountants to be knowledgeable about new regulations and new requirements, in order to assist and advise clients. Any time you have a changing environment and regulatory landscape, the pressure is on the professionals, such as auditors and CPA firms, to become proficient and knowledgeable very quickly.

> "You want to make sure management is focused on the strategic vision and strategic direction and engages in the dialogue with the board."—Olivia Kirtley

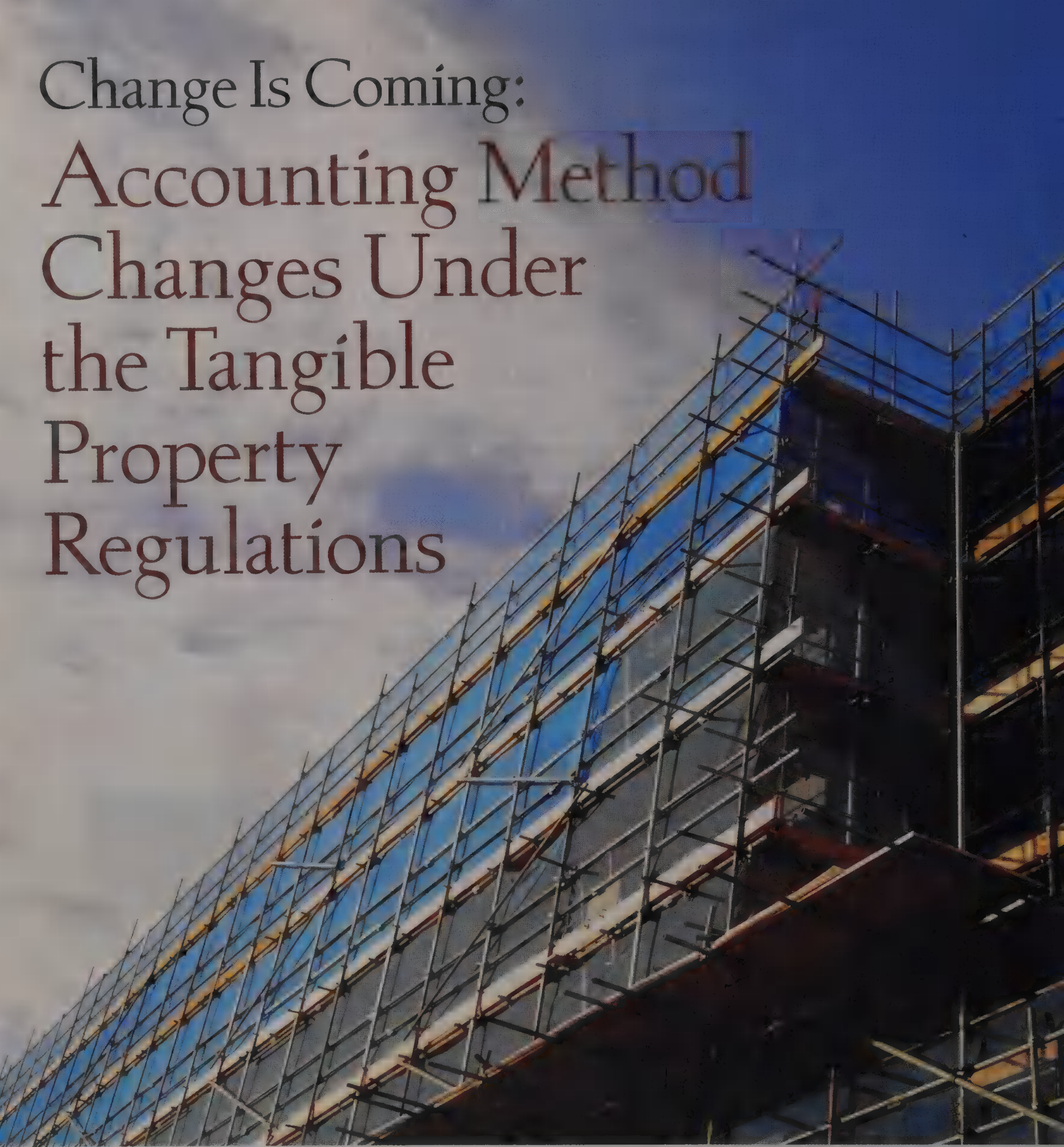
As the former CFO of a global manufacturing company, how do you view the increased worldwide regulatory focus on corporate tax avoidance? What do you see in store for multinationals and their corporate tax compliance?

Kirtley: The fact is there are laws in effect around the globe to incentivize domiciles and structures that minimize tax. Companies have the responsibility to make sure that they are totally compliant with the laws, but many companies are looking at issues beyond strict legal compliance. A key issue is the reputational risk that has arisen from doing things that are legal but may be viewed by some as not paying a "fair share." This is a difficult situation for everyone. However, companies can't do the government's job. If the laws in place aren't producing the desired results, they should be changed.

Unfortunately, tax laws are very complex. Most have been in place for a very long time, and they are often based more on exchange of tangible goods rather than intellectual property or other things. Changing tax laws to produce the results that governments expect from a revenue and a competitive standpoint will be a complicated process. Currently, there is a focus by the G-20 and OECD [Organisation for Economic Co-operation and Development] on enhancing the transparency and exchange of appropriate information between jurisdictions, but all of this will take time. In the meantime, balancing compliance and reputational issues, as well as shareholder value and returns, will be an ongoing challenge for multinational companies. ❖

Sabine Vollmer is a JofA senior editor. To comment on this article or to suggest an idea for another article, contact her at svollmer@aicpa.org or 919-402-2304.

Change Is Coming: Accounting Method Changes Under the Tangible Property Regulations



Here is what practitioners need to know about the required revisions.

by Pamela Schuneman, CPA

The new tangible property regulations form a framework of rules for the capitalization of tangible property that affects the treatment of fixed asset additions and disposals, the expensing of materials and supplies, and the timing of deductions for repairs and maintenance expenses. The regulations are complex and far-reaching, and they require almost all businesses to make accounting method changes and review past decisions regarding whether to capitalize or expense tangible assets.

For the 2014 tax year, most businesses will need to make accounting method changes to comply with the new regulations. Understanding the new rules and their implementation requirements is a daunting task similar to visiting a foreign country. The traveler may have a map of the city and a dictionary to help with the language, but everything is foreign. Just as learning the language and terrain makes it easier for the traveler to get around, here, too, grasping the general concepts of the rule changes will help practitioners and taxpayers analyze their specific situation and plan a course of action.

Some of the accounting method changes can be applied retroactively and require adjustments to income under Sec. 481(a). Several accounting method changes should be considered—all are automatic for 2014. Taxpayers generally must file a Form 3115, *Application for Change in Accounting Method*, for these accounting method changes. However, due to the outcry from small businesses and practitioners about the amount of work required to comply with the repair regulations, the IRS issued guidance in February (Rev. Proc. 2015-20) that will simplify the determination of Sec. 481(a) adjustments for accounting method changes under the repair regulations for many taxpayers and allow them to make the changes without filing Forms 3115.

Under the revenue procedure, the IRS is allowing small businesses to make certain accounting method changes under the repair regulations on a cutoff basis, that is, with a Sec. 481(a) adjustment that takes into account only amounts paid or incurred, and dispositions, in tax years beginning on or after Jan. 1, 2014, the effective date of the regulations. In addition, for their first tax years beginning on or after that date, taxpayers generally are permitted to make these changes without filing Form 3115. For these purposes, a small business is defined as a business with total assets of less than $10 million on the first day of the tax year for which the accounting method change is effective or average annual gross receipts of $10 million or less for the prior three tax years.

For taxpayers that are required to make multiple accounting method changes, the regulations contain specific requirements for determining which changes can be filed concurrently on the same Form 3115 and which changes must be made by filing separate forms.

Changes That May Be Necessary to Comply With the New Regulations

Incorrect Depreciation Method

While taxpayers in the past have been able to make an accounting method change for

incorrect depreciation, the new regulations make a significant change. The new wrinkle in having an incorrect depreciation method is found in Regs. Sec. 1.1016-3(a)(1)(ii), which states that "[a] taxpayer is not permitted to take advantage in a later year of the taxpayer's prior failure to take any such allowance or the taxpayer's taking an allowance plainly inadequate under the known facts in prior years."

What this means is that after the 2014 tax year, the taxpayer must keep using an incorrect method and cannot go back and make the change in a later year. All taxpayers who have fixed assets subject to depreciation should make sure existing class lives are correct and that bonus depreciation was properly taken on prior returns. If incorrect depreciation methods are found, they should be corrected by an accounting method change.

Capitalized Repair Items (Regs. Sec. 1.162-4)

The repair regulations define which expenditures must be capitalized and which can be expensed based upon the newly defined unit-of-property rules. These new rules are adopted through an accounting method change and, if an item was capitalized in the past that should have been expensed using the new expensing criteria, the accounting method change is applied retroactively to that asset.

For example, in 2009, a taxpayer repaired the roof of a large commercial building. About 25% of the roof was replaced, and the full cost of the repair was capitalized and depreciated using a 39-year life. Under the current criteria, the roof is a structural component of the building under Regs. Sec. 1.263(a)-3(k)(6)(ii)(A), and the repair to that component was not substantial and was not an improvement or a betterment. Therefore, the expenditure qualifies as a repair. The taxpayer can make an automatic accounting method change and take the undepreciated balance of the asset as a negative Sec. 481(a) adjustment in the current year.

> The accounting method change for a unit of property can be applied retroactively.

In addition to gaining the benefits of an immediate write-off, the taxpayer has effectively reduced the accumulated depreciation that may be subject to Sec. 1250 recapture. For this reason, there is a benefit to retroactively changing the treatment of any fully depreciated property that can be recharacterized as a repair, eliminating possible depreciation recapture in a subsequent sale.

This method change can cut both ways, however. If an amount was deducted as a repair but under the new criteria should have been capitalized, the taxpayer will be required to put the asset on the depreciation schedule, compute the depreciation that should have been taken in previous years, and make a positive Sec. 481(a) adjustment.

Leased Property (Regs. Secs. 1.167(a)-4 and 1.162-11(b))

For a lessor, the general rules for defining a unit of property for purposes of applying the tangible property regulations are applied to leased property. Any past amounts incurred and capitalized for tenant improvements should be analyzed for incorrect accounting methods or possible recharacterization as a repair. Under Rev. Proc. 2014-54, the landlord can use the partial-asset-disposition rules to write off abandoned tenant improvements, but the chance to write off these assets as an accounting method change lasts only through 2014.

For a taxpayer that is a lessee, the unit of property is defined as each building and the structural components associated with the leased portion of the building, as defined in the lease agreement.

For example, if a taxpayer leases three units in the same building, all under separate lease agreements, the taxpayer has three units of property. Assume each of these units has a separate heating, ventilation, and air conditioning (HVAC) system. Because the lease agreement defines the unit of property, whether expenses are deductible repairs or must be capitalized will be determined on a leased-unit basis. If the HVAC system goes out in one unit and has to be replaced, the expenditure would require capitalization because the unit has only one HVAC unit and replacement of that unit would qualify as substantial. If three HVAC units are included in one lease agreement, the replacement of one unit is only one-third of the total units of the HVAC building component. In that case, the cost of the replacement would be deducted as a repair.

EXECUTIVE SUMMARY

- **The tangible property regulations will require most busi-** [redacted] to change their accounting methods beginning with the 2014 tax year.
- **One change that will be required** is how businesses treat repairs.
- **Taxpayers need to take** [redacted] **to determine which changes can be filed concurrently** on the same Form 3115, *Application for Change in Accounting Method*, and which must be filed separately.

***Pamela Schuneman** (pschuneman@kbgrp.com) is a tax manager for Kerkering, Barberio and Co. in Sarasota, Fla.*

To comment on this article or to suggest an idea for another article, contact Sally P. Schreiber, senior editor, at sschreiber@aicpa.org or 919-402-4828.

Unit-of-Property Changes (Regs. Sec. 1.263(a)-3(e))

The new regulations establish a functional interdependence standard for defining a unit of property under which all the components that are functionally interdependent constitute a single unit of property. Components of property are functionally interdependent if the placing in service of one component by the taxpayer is dependent on the placing in service of the other component by the taxpayer. Thus, for tangible property, this will require looking at an integrated piece of machinery as one unit of property. The decision to expense or capitalize will be made by determining whether the expenditure is substantial when compared to the entire unit of property.

The regulations provide special rules for buildings. Each building and its structural components are a single unit of property. However, the regulations designate nine building structural components to which the improvement rules apply separately. These are:

- HVAC systems;
- Plumbing systems;
- Electrical systems;
- Escalators;
- Elevators;
- Fire protection and alarm systems;
- Security systems;
- Gas distribution systems; and
- Other systems and components identified in published guidance.

The building structure must be divided into smaller units of property for each structural component that performs a separate function. Examples of structural components are windows, roofs, and flooring.

The accounting method change for a unit of property can be applied retroactively. Any assets on the depreciation schedule that are not grouped as required under the new standards should be changed to reflect a proper grouping. Once the new unit of property is identified, past capitalized expenditures should be scrutinized to determine whether the capitalization standard was met or they should have been expensed as repairs. If it is determined that the amount should not have been capitalized, then the item can be removed from the depreciation schedule with a negative Sec. 481(a) adjustment taken for the undepreciated asset balance.

Routine-Maintenance Safe Harbor (Regs. Sec. 1.263(a)-3)

Under the routine-maintenance safe harbor, amounts paid for routine maintenance are deemed not to improve a unit of property and are therefore currently deductible. Routine maintenance includes recurring activities performed to keep a unit of property in an ordinarily efficient operating condition. However, to be routine, an activity must be one that the taxpayer reasonably expects (at the time the property is placed in service) to perform more than once during the alternative depreciation system (ADS) class life of the unit of property for property other than buildings and to be performed more than once during a 10-year period for buildings. The routine-maintenance rules do not apply to assets that are betterments, network assets (i.e., assets used by utilities, such as power plants and communications), or certain rotable, temporary spare parts.

This accounting method can be adopted retroactively with the new routine-maintenance safe-harbor criteria applied to past fixed-asset additions. If it is determined that an addition should have been a repair, the asset can be removed from the depreciation schedule and a negative Sec. 481(a) adjustment taken on the current tax return.

Prior-Year Partial Disposition (Regs. Sec. 1.168(i)-8(d))

Prior-year losses from the disposition of a structural component of a building or a component of a unit of property can be recognized as a method change. Current-year partial asset dispositions are recognized with an election.

The partial-asset-disposition rules are mandatory for a casualty event, any nontaxable transaction, or the sale of a portion of an asset. If the partial disposition falls outside of these mandatory criteria, the recognition of the partial asset disposition is optional.

The main issue with this accounting method change is determining the basis of the disposed partial asset. The regulations

Each taxpayer can have multiple Form 3115 filings, with some of those forms containing multiple method changes.

call for the use of a reasonable method to determine the original cost. Three methods can be used for this purpose:

- Discounting the cost of the replacement property using the producer price index (PPI, which measures the average change over time of prices received by domestic sellers of goods and services);
- Pro rata allocation; and
- A prior cost-segregation study.

A Form 3115 is required for a prior-year partial asset disposition, and the change is automatic.

Removal Costs (Regs. Sec. 1.263(a)-3(g)(2))

If a taxpayer disposes of a depreciable asset or a component of an asset and realizes a gain or loss on the disposition, the cost of removing the asset does not have to be capitalized. If the taxpayer disposes of a component of an asset, but the removal is not treated as a disposition, then the taxpayer must look to the treatment of the replacement property to determine whether the removal costs should be expensed or capitalized.

For example, if the taxpayer makes substantial changes to a building structure that result in a betterment, the taxpayer must capitalize the expenditure. The taxpayer can elect to treat the event as a partial asset disposition and write off the remaining

undepreciated cost of the portion of the asset that was removed. If this treatment is elected, the removal of the old asset is a taxable disposition, and the cost of removing the asset does not have to be capitalized. But if a partial asset disposition is not elected, the removal costs must be capitalized into the cost of the improvement.

This method change should be adopted if a taxpayer wants to write off removal costs associated with the replacement of an old asset with a new asset that is required to be capitalized.

Rev. Proc. 2015-20 simplifies the determination of Sec. 481(a) adjustments for many taxpayers and allows them to make the changes without filing Forms 3115.

Materials and Supplies (Regs. Sec. 1.162-3)

The regulations adopt new rules that differentiate the accounting treatment of incidental and nonincidental materials and supplies. If materials and supplies are incidental, a deduction is taken in the year they are paid for, but if the materials and supplies are nonincidental, a deduction is taken upon use or consumption.

The final regulations define materials and supplies as tangible property that is used or consumed in the taxpayer's operations that is not inventory and that are:

- Components acquired to maintain, repair, or improve a unit of tangible property that are not acquired as part of any single unit of property;
- Fuel, lubricants, water, and similar items that are reasonably expected to be consumed in 12 months or less;
- Units of property with an economic useful life of 12 months or less;
- Units of property with an acquisition or production cost of $200 or less; or
- Identified in published guidance in the *Federal Register* or in the *Internal Revenue Bulletin* as materials and supplies.

These definitions apply to all taxpayers and will apply whether or not the taxpayer currently writes off all materials and supplies. This method change applies to amounts paid or incurred in tax years beginning on or after Jan. 1, 2014, so there is no retroactive application of the accounting method. For the 2014 tax return, the taxpayer will need to inventory nonincidental materials and supplies and either create a tax balance sheet account or defer the recognition of the expense through a Schedule M-1 or M-3 adjustment.

Form 3115 Requirements

The new tangible property regulations will require most taxpayers to adopt multiple changes in accounting methods for 2014. The method changes are automatic and will require many taxpayers to file Forms 3115. However, as noted above, Rev. Proc. 2015-20 has eliminated the requirement for qualifying small business taxpayers to file Form 3115 in tax year 2014 for certain accounting method changes in the repair regulations, which will greatly reduce the number of taxpayers who must file the form.

Where a taxpayer is required to file a Form 3115, the tangible property regulation method changes have automatic change method numbers, and user fees are not required.

Care should be taken to determine which changes can be filed concurrently and which must be filed separately. Each taxpayer can have multiple Form 3115 filings, with some of those forms containing multiple method changes. Rev. Proc. 2015-14 lists procedures for filing a single Form 3115 for two or more method changes.

Conclusion

The new tangible property regulations are complex and require substantial resources for successful implementation. Practitioners should examine existing depreciation schedules and apply the new rules to these assets. Some of the method changes are prospective, while others can be applied retroactively and could generate negative Sec. 481(a) adjustments for 2014 tax filings. ❖

AICPA RESOURCES

***JofA* articles**

- "Tax Practice Corner: The *De Minimis* Safe Harbor Under the Repair Regulations," May 2014, page 58
- "Tax Practice Corner: Automatic Consent for Changing Accounting Methods Under the 'Repair Regs.,' " April 2014, page 58
- "Implementing the New Tangible Property Regulations," Feb. 2014, page 22

Use journalofaccountancy.com to find past articles.

E-newsletter articles

- "A Closer Look at the IRS's Final Tangible Property Regulations," *CPA Insider*, Feb. 18, 2014, tinyurl.com/qefc3n9
- "Regulations Bring Clarity to Treatment of Tangible Property Expenses," *Corporate Taxation Insider*, Sept. 26, 2013, tinyurl.com/pkvttma
- "IRS Lets Taxpayers Choose When to Implement the New Tangible Property Regs.," *Corporate Taxation Insider*, Dec. 13, 2012, tinyurl.com/pz8ck3g

Use cpa2biz.com to find e-newsletter articles. Click the "Newsletters" tab at the top of the page.

CPE self-study

- Accounting Methods and Periods, Tax Staff Essentials, Level 2, Experienced Staff (#157690, one-year online access)
- Capitalized Costs and Depreciation: Key Issues and Answers (#736960, text; #163570, one-year online access)

For more information or to make a purchase, go to cpa2biz.com or call the Institute at 888-777-7077.

***The Tax Adviser* and Tax Section**

The Tax Adviser is available at a reduced subscription price to members of the Tax Section, which provides tools, technologies, and peer interaction to CPAs with tax practices. More than 23,000 CPAs are Tax Section members. The Section keeps members up to date on tax legislative and regulatory developments. Visit the Tax Center at aicpa.org/tax. The current issue of *The Tax Adviser* is available at thetaxadviser.com.

21st Annual

2015 New Jersey Accounting, Business & Technology Show

May 13-14, 2015 Weds-Thurs

Meadowlands Exposition Center
355 Plaza Drive, Secaucus, NJ at Harmon Meadows
Adjacent to the NJ Turnpike and Route 3 and major NJ roadways

ALL NEW
Register Today
for the FREE Show and
Low Cost CPE at only $45/day

Sponsored by NCCPAP,
National Conference
of CPA Practitioners.

All New CPE Program and Free Show for New Jersey CPAs and Accounting Professionals. See checklist below.

- ✓ Managing Accounting Technology: iPads, iPhones, Cloud, Mobile, Web, Serving Clients better.
- ✓ CPE sessions at low cost of $45 per day with 6 hours of CPE credits, or $80 for two days with 12 hours of CPE credits. The CPE is accredited by National Association of State Boards of Accountancy (NASBA)
- ✓ See and hear the newest accounting, business, finance, tax, payroll, cloud, mobile, web. Network with friends. Efficient two day conference and free show.
- ✓ Location. Location. Location. The Meadowlands is convenient to the New Jersey Turnpike and Route 3, and major arteries in North Jersey.
- ✓ Free parking, low-cost luncheon. You don't have to leave the convention center to have lunch.
- ✓ Free CPE keynotes each morning from 8-9:40 am with 2 Free CPE credits.
- ✓ QuickBooks Academy sponsored by Intuit - a new program for 2015.
- ✓ Sponsored by NCCPAP, National Conference of CPA Practitioners.
- ✓ For complete details and to register online: visit: flaggmgmt.com/nj

2015 Sponsors

Intuit QuickBooks · Wolters Kluwer · sage · Thomson Reuters · CPA.com · CPA Practice Advisor · SourceMedia · The Progressive Accountant · The Tax Adviser · accountingTODAY · goingconcern · IMA · Journal of Accountancy · accountingWEB · CPATrendlines · NJBIZ · NJCC

Visit: **flaggmgmt.com/nj**

KEYNOTE

Rick Richardson
CPA, CITP, CGMA, Richardson Media & Technologies

KEYNOTE

Erik Asgeirsson
President & CEO, CPA.com

KEYNOTE

Joel L. Naroff, PhD
Naroff Economic Advisors

Doug Sleeter
President, The Sleeter Group

MB Raimondi
CPA, CITP, MS Taxation, Intuit Solution Provider

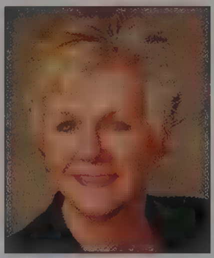
James C. Bourke
CPA.CITP.CFF.CGMA, Partner, WithumSmith+Brown, PC

Samantha Mansfield
Sr Mgr Corp Communications and Program Devel, CPA.com

Robert L. Goldfarb
CPA, Princ, Janover LLC Chmn, LI Tax Profs Symposium, NCCPAP

Brian Siet
CPA, Sr Mgr, Strategic Relships Tax & Acctg US Wolters Kluwer

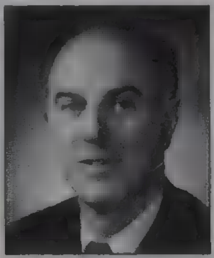
Louie Calvin
Prod Mgr- Acctg CS Thomson Reuters Tax & Accounting



Sandra Johnson
CPA, Owner, Sandra Johnson, CPA PC

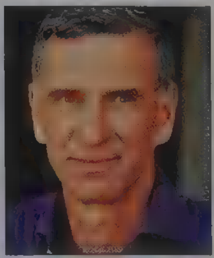
Gail Perry
CPA, Editor-in-Chief *CPA Practice Advisor*

Daniel Hood
Editor-in-Chief, *Accounting Today*

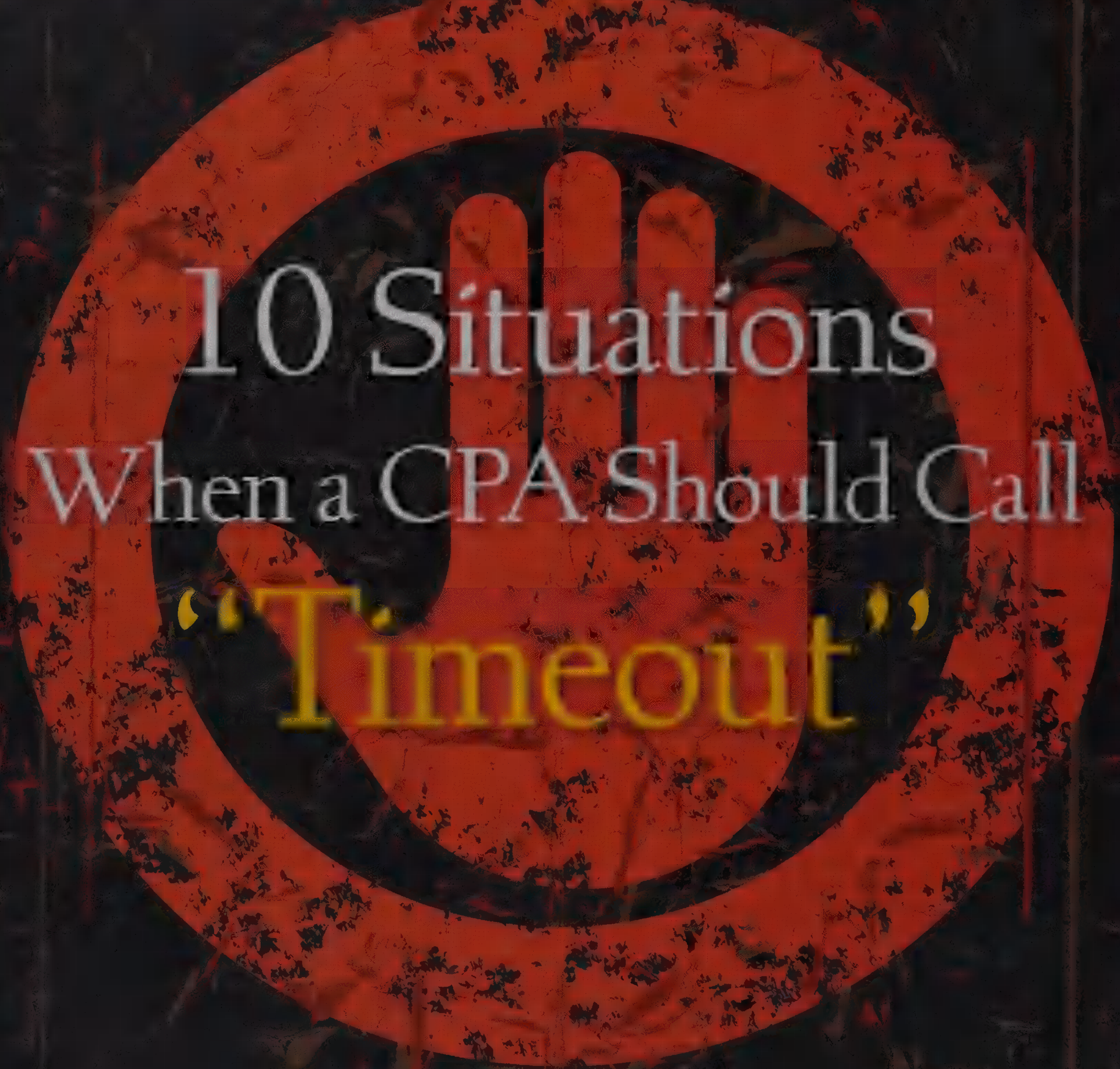


Alan J. Preis, CPA,
Alan J. Preis, CPA, PC

Laurie Rodriguez
Sr Product Manager, Sage



Gary Olynik
Sage Accountant Network acct advocate, Sage



10 Situations When a CPA Should Call "Timeout"

Tax accountants need to know when to call in legal counsel.

by Thomas D. Sykes, J.D.

In a number of situations, a CPA handling a tax matter should immediately stop work and bring in tax litigation counsel. These "timeout" situations typically occur when the CPA is concerned that the matter will "go criminal," the matter requires knowledge of the rules of civil discovery and evidence that apply to possible court proceedings, or the matter requires knowledge of nontax administrative law. The presence of these factors, as well as a few other factors, makes it unduly risky for a tax accountant to proceed without the participation of well-qualified tax litigation counsel. This article sets out a "timeout" list to assist in identifying these situations.

Timeout situation No. 1: Any time a client has failed to file tax returns or a FinCEN Form 114, *Report of Foreign Bank and Financial Accounts* (FBAR) (filed electronically), has willfully made false statements on a filed document, or has evaded tax, a tax accountant should call "timeout." Willfully failing to file, making a false statement, and evading tax are criminal offenses, and no privilege protects an accountant's conversations with a client in a criminal matter. CPAs need to end these conversations immediately so that no potentially incriminating testimony not protected by the attorney-client privilege is created.

A limited statutory privilege, under Sec. 7525, protects tax advice communications between a tax practitioner and a client. That privilege, known as the federally authorized tax practitioner or Sec. 7525 privilege, applies only in noncriminal tax matters before the IRS and in federal court. Notably, this privilege does not apply in state court. It also does not apply to any nontax proceeding, or to participation in a tax shelter as defined in Sec. 6662(d)(2)(C)(ii). Moreover, the privilege is recognized only if a privilege would obtain if an attorney were standing in the shoes of the CPA (or other "federally authorized tax practitioner") making or receiving the communication.

Accordingly, CPAs should be careful not to communicate with a tax client in a matter that has the potential to "go criminal" or that might qualify as a tax shelter. Instead, tax litigation counsel should be brought in, so that conversations with the client are protected by the attorney-client privilege, which applies to some matters that are not protected by Sec. 7525.

Timeout situation No. 2: This situation is related to the first: A tax accountant should never respond to an IRS investigation on behalf of a client who is worried about criminal prosecution. The response may be incriminating, and that is bad enough. But it gets worse: A response can trigger an effort by the U.S. Department of Justice (DOJ) or the IRS to show that the response was a "subject matter waiver" of Fifth Amendment rights under the "sword and shield" doctrine. Under this doctrine, a litigant cannot claim a privilege for information he or she is using as part of a legal defense. The subject matter waiver is worrisome because determining what is within, and what is outside, the subject matter of the waiver is often uncertain and debatable. Moreover, interacting with a criminal investigator creates a risk that the interaction will subsequently be portrayed as part of a cover-up. It is commonplace that prosecutors prefer to prosecute cover-ups because cover-ups (or conspiracies) are often easier to prove than the underlying crime.

In this regard, a tax accountant should never engage with IRS special agents, because they are criminal investigators. A special agent's involvement in the investigation signifies that the IRS is concerned that criminal activity may have taken place. A special agent is far different from a revenue agent, who is an IRS examiner, and from a revenue officer, who is an IRS debt collector. If a tax accountant gets even a whiff of a special agent's involvement, the accountant should (1) have no further conversations with the client; and (2) call a tax lawyer with criminal tax experience. The same advice goes for involvement by an agent from a state revenue agency that is tasked with criminal enforcement.

A tax accountant should never respond to an IRS investigation on behalf of a client who is worried about criminal prosecution.

Timeout situation No. 3: A tax accountant should never discuss a situation in which a corporate officer or employee has willfully not paid over employment taxes withheld from corporate employees and has participated in the diversion of this "trust fund" money. Usually, the diversion takes place with the thought that the money will soon be repaid, after the corporation's finances improve. But an intent to later pay the money over to the IRS does not negate a willful and punishable diversion.

The IRS is vigorously pursuing criminal prosecution of these cases—even when the sums involved are relatively modest. In recent years, a trust fund penalty case in which the taxpayers diverted only about $160,000 was prosecuted criminally (see Department of Justice, Tax Division, Press Release 14-530 (May 19, 2014)). Larger amounts are even more likely to be addressed with a criminal indictment. CPAs should not speak with corporate officers or employees who have culpable involvement with a diversion of trust fund monies. The Sec. 7525 privilege does not protect those communications.

It is a serious mistake to allow an IRS

revenue officer to interview the client. The setting is routine enough. A revenue officer shows up at the business's premises, often unannounced, and says that he or she wants to discuss past-due employment taxes. The officer runs through a series of questions set out on a Form 4180, *Report of Interview With Individual Relative to Trust Fund Recovery Penalty or Personal Liability for Excise Taxes*, fills out the form, and then asks the person to sign. The questions on Form 4180 are designed to establish "willfulness," which is necessary to impose a Sec. 6672 civil penalty, but facts that are sufficient to support imposing a civil penalty can also suffice to support a criminal charge. A taxpayer should not be permitted to participate in an interview unless it is clear that the taxpayer was not involved or lacked power or authority to divert the trust fund taxes. A criminal charge is a life-changing event.

Timeout situation No. 4: Tax litigation counsel usually should be brought in as soon as a summons is issued to a taxpayer. First, the similarities of a summons to civil discovery are obvious (although the IRS's summons power reaches even more broadly). Second, if there are criminal overtones to the summons, very complicated issues involving the Fifth Amendment and a subject matter waiver may arise. Extreme care should be taken not to say, or fail to say, something that can later be portrayed as part of a cover-up. Even if there is no suggestion of criminal concerns, a summons typically signifies that the taxpayer's response to an IRS information document request (IDR) was viewed as inadequate, implying a possible future interaction with the DOJ and the courts. Drafting responses to summonses, particularly when the matter has criminal overtones, is tricky business best left to tax litigation lawyers.

Timeout situation No. 5: Tax litigation counsel should be brought in early if a matter is being positioned for a civil refund suit, especially if large dollar amounts are involved. The most favorable venue for such a suit is usually federal district court, and the least favorable is usually Tax Court, with the Court of Federal Claims falling somewhere in the middle. It is up to legal counsel, not a CPA, to judge which is the most appropriate forum, each of which has its pros and cons. Moreover, strategy informs the choice of forum, and choice of strategy is also a decision for tax litigation counsel.

To go to the two more generally favorable forums, federal district court and Claims court, a timely and sufficient claim for refund is a prerequisite, along with full payment of the tax. A claim for refund, unless it is a "protective" claim, is required to set out facts and grounds "in detail." But a claim should not be overly precise, as that runs the risk of precluding factual and legal arguments that were not anticipated. Nor should a nonprotective, regular claim be too vague, as that can run afoul of the "in detail" requirement of Regs. Sec. 301.6402-2(b). This is a tricky balancing act. Unless there is no time left in the statute-of-limitation period to file a claim, a tax litigator should be brought in to draft (regular) claims because they are likely to be under the microscope in court, where the IRS scrutinizes the refund claims in an attempt to find a "variance" that precludes a taxpayer from making a particular argument or from obtaining part of the amounts sought to be recovered.

When litigation is anticipated, legal duties exist that require preserving documents that may be relevant to the anticipated litigation, including electronic files and emails. Businesses are well-advised to circulate and observe a request

EXECUTIVE SUMMARY

- **Tax practitioners [illegible] frequently involved** in matters that may require referral to legal counsel.
- **When these situations occur,** it is essential that the practitioners recognize them in time.
- **Ten of these situations in particular** may require practitioners to end communications and bring in legal counsel.
- **Several of these situations involve the potential for criminal liability,** which is perhaps the most obvious development requiring legal advice.
- **Some of these situations do not invoke criminal liability** but nonetheless call for legal expertise rather than the skills CPAs bring.

Thomas D. Sykes (tsykes@gouldratner.com) is a partner at Gould & Ratner LLC in Chicago.

To comment on this article or to suggest an idea for another article, contact Sally P. Schreiber, senior editor, at sschreiber@aicpa.org or 919-402-4828.

to maintain documents in anticipation of litigation, commonly known as a "litigation hold." Tax accountants may not be in the best position to make decisions about which documents should be preserved and how. Early involvement by tax litigation counsel is advisable when litigation is anticipated, as the downside of a document "spoliation" claim raised in court can be significant.

Relatedly, a prelitigation strategy sometimes includes filing a Freedom of Information Act (FOIA) request, which resembles a discovery demand. The sufficiency of a FOIA request frequently ends up being litigated in court. Tax litigation counsel should be involved in the decision whether to file a FOIA request and in drafting any FOIA request that is filed.

Timeout situation No. 6: If an expert witness who participated at the administrative level is to be relied upon again in court, the process of preparing the expert report is fraught with risk, and tax litigation counsel should participate, at least if enough tax dollars are at stake. The law governing the drafting of expert-witness reports has evolved. Currently, if the report was ghostwritten, a participating tax professional may be subject to sanctions, not to mention that the expert's credibility is impaired. A tax professional working with the expert needs to take into account the discovery rules and the rules of evidence bearing upon the discovery of sensitive information exchanged between the client and the expert, and between the tax professional and the expert. Tax litigation counsel has a key role to play in handling experts expected to be used in litigation.

Timeout situation No. 7: If a taxpayer will be going to court to challenge the application of a regulation, tax litigation counsel should be brought in early. Over the last 18 months, Supreme Court jurisprudence addressing the validity of regulations has taken some positive turns for taxpayers. This helpful case law has arisen entirely in cases dealing with nontax administrative law (see, e.g., *Environmental Protection Agency v. EME Homer City Generation, L.P.*, 134 S. Ct. 1584 (2014) (requiring an agency to reasonably explain a reversal of a regulatory position); *City of Arlington v. Federal Communications Comm.*, 133 S. Ct. 1863 (2013) (instructing "rigor" and "seriousness" in determining whether a regulation is within the statutory authorization)). Most cases concerning the validity of, and weight to be given to, regulations and other agency guidance are not tax cases.

In early 2011, the *Mayo Foundation* case (562 U.S. 44 (2011)) made clear that the two-step *Chevron* test (*Chevron U.S.A. Inc. v. Natural Resources Defense Council, Inc.*, 467 U.S. 837 (1984)) for determining whether a regulation is valid applies to almost all federal agencies, including the IRS and the Treasury Department. Probably, few tax accountants (and few tax lawyers as well) attempt to keep up with developments in nontax administrative law on the validity of regulations and other regulatory guidance. Tax accountants may not have the time to interpret and apply nontax administrative law. Accordingly, when a challenge to the application of regulatory guidance is anticipated, participation by tax litigation counsel familiar with current developments in administrative law is advisable.

Timeout situation No. 8: Tax litigation counsel should be brought in when a large-dollar matter is before IRS Appeals for possible settlement. Legal counsel's presence makes the point to Appeals that the taxpayer would like to settle but is not reluctant to litigate. Bringing a tax litigator to the table demonstrates that the taxpayer is ready, willing, and able to litigate. Tax litigation counsel also provides a counterweight to the IRS's tax litigators, who in recent years have been given a larger role during administrative proceedings. Indeed, the IRS attorney who litigates the case for the IRS in Tax Court will often have previously had a role at the administrative level.

Timeout situation No. 9: This situation seems obvious and should go without saying. Tax litigation counsel should be brought in when the validity of a transaction is under the IRS microscope, and the taxpayer relied on the accountant's or attorney's advice in structuring the transaction. A CPA or attorney should never put himself or herself in the position of defending a transaction when one defense to the penalty imposed for the transaction is

AICPA RESOURCES

JofA articles

- "Tax Matters: Work Product Protection and Attorney-Client Privilege in an IRS Audit," Feb. 2014, page 58
- "Are Courts Ready to Protect More Accountant-Client Communications?" Jan. 2014, page 36
- "Client Tax Fraud and the CPA," Aug. 2011, page 24

Go to journalofaccountancy.com to find past articles.

Publications

- *The 2015 Cumulative Tax Guide* (#PTX1405D, online access)
- *The Adviser's Guide to Doing Business With the IRS* (#091093, paperback; #091094PDF, online access)
- *U.S. Taxation of International Operations: Key Knowledge* (#091102, paperback)

CPE self-study

- 2014 Corporate Tax Workshop Video-course (#112645, DVD/manual)
- Advanced Business Law for CPAs (#735236, text; #163550, one-year online access)
- Real-World Business Ethics: 12 Case Studies (#732130, text)
- Tax Staff Essentials, Levels 1–4 (cpa2biz.com/TSE)

For more information or to make a purchase, go to cpa2biz.com or call the Institute at 888-777-7077.

The Tax Adviser and Tax Section

The Tax Adviser is available at a reduced subscription price to members of the Tax Section, which provides tools, technologies, and peer interaction to CPAs with tax practices. More than 23,000 CPAs are Tax Section members. The Section keeps members up to date on tax legislative and regulatory developments. Visit the Tax Center at aicpa.org/tax. The current issue of *The Tax Adviser* is available at thetaxadviser.com.

the taxpayer's reliance on that CPA's or attorney's professional advice.

Timeout situation No. 10: Tax litigation counsel should be brought in to advise on tax planning issues where the transaction under consideration is "close to the edge" or aggressive. Attorney-client privilege issues are tricky, and Sec. 7525 privilege issues are even trickier, especially with its broad carve-out for tax shelter advice. Tax litigators develop a sense for not only whether a structure works in technical tax terms but also for how the structure will play in front of a generalist judge or a jury. The ultimate test for whether a structure works is often in the eyes of the beholder. In the U.S. justice system, a jury often has the ultimate say—which should make planners who go too close to the edge with an aggressive structure think twice. An assessment of how a judge or jury might react to an aggressive structure is best left in the hands of an experienced tax litigator.

Role of the CPA and Choosing Counsel

Of course, that a "timeout" should be called does not imply that the accountant should have no role going forward. It simply means that the reins need to be turned over to someone with tax litigation experience. Often, a tax accountant is "deputized" under a so-called *Kovel* arrangement, which allows the preservation of the attorney-client privilege (under *Kovel*, 296 F.2d 918 (2d Cir. 1961)). In a *Kovel* arrangement, an accountant hired by a lawyer may be extended the attorney-client privilege where the accountant assists the attorney.

Obviously, many of the "timeout" situations are driven by concerns about the prospect of a criminal investigation or charge, by a need to understand the rules of civil discovery and evidence, or by a need to understand nontax administrative law. Accordingly, tax litigation counsel selected for these situations should preferably have (1) a substantial background in litigating and trying cases, preferably including criminal law experience; (2) a deep substantive background in tax law; and (3) a solid nontax administrative-law background. It is much less efficient, and probably more expensive, to have these functions performed by hiring a nontax litigator to assist a substantive tax lawyer who is not a litigator. Ideally, the desired attributes should be located in one well-qualified person.

Conclusion

There are times when it is perilous for a tax accountant to continue handling a tax matter. Some tax representation activities should be handled by well-qualified tax litigation counsel. It is extremely important for a tax accountant to spot the biggest perils quickly, so that regrettable, and sometimes irreversible, actions are not taken. The tips in this article can help practitioners detect these situations early. ❖

HEALTH CARE REFORM RULES

Identifying Full-Time Employees Who Change Jobs Within an Employer Group

The IRS recently issued guidance under the Patient Protection and Affordable Care Act, P.L. 111-148, on how to measure the lookback period for an employee under the lookback measurement method when the measurement period applicable to the employee changes. The lookback measurement method is used to determine whether an employee is a full-time employee for purposes of the large-employer health coverage shared-responsibility penalty under Sec. 4980H. A change in the measurement period might occur when an employee transfers within the same applicable large employer (ALE) from a position to which one measurement period applies to a position to which a different measurement period applies. It may also occur if the ALE member modifies the measurement method applicable to employees within a permissible employee category (e.g., hourly employees). Notice 2014-49 contains a proposed approach for the application of the lookback measurement method in these situations.

thetaxadviser.com

Under Sec. 4980H, an applicable large employer is subject to a penalty if its employer-sponsored health coverage does not provide "minimum essential coverage" or is unaffordable relative to the employee's household income and at least one full-time employee has been certified as having enrolled in a qualified health plan with respect to which an applicable premium tax credit or cost-sharing reduction is allowed or paid with respect to the employee. An employer is an "applicable large employer" for a calendar year if, during the preceding calendar year, it employed on average at least 50 full-time employees. Compliance with these rules requires employers to be able to identify full-time employees. Final regulations issued in February 2014 (T.D. 9655) dealt with the issue of identifying full-time employees, but did not address situations in which an employee transfers between positions to which different lookback measurement periods apply. The regulations also did not discuss the effect of an employer's changing the measurement method for a category of employees. Notice 2014-49 addresses these issues.

Under the proposed rule, in general, if an employee is in the stability or administrative period (i.e., the employee has worked a full standard or initial measuring period) and thus his or her full- or part-time status for the first position has been determined as of the date of transfer, the employee retains his or her status through the end of the associated stability period. For an employee who is not in a stability period or administrative period at the time of transfer, the employee's status is determined using the measurement period that applies to the second position, but hours of service in the first position are included.

Until further guidance is issued (and at least through the end of calendar year 2016), employers can rely on Notice 2014-49.

For a detailed discussion of the issues in this area, see "IRS Issues Additional PPACA Guidance on Identifying Full-Time Employees," by William P. O'Malley, CPA, J.D., in the April 2015 issue of *The Tax Adviser*.

—*Alistair M. Nevius, editor-in-chief,*
The Tax Adviser

The Tax Adviser is the AICPA's monthly journal of tax planning, trends, and techniques. AICPA members can subscribe to *The Tax Adviser* for a discounted price of $85 per year. Tax Section members can subscribe for a discounted price of $30 per year. Call 800-513-3037 or email taxsection@aicpa.org for a subscription to the magazine or to become a member of the Tax Section.

TAX PRACTICE CORNER

Tax Practice Responsibilities Involved in Schedule UTP

The need to file Schedule UTP, *Uncertain Tax Position Statement*, may have taken many corporate taxpayers by surprise in 2014, since the asset threshold for compliance was lowered from $50 million to $10 million.

In addition, the final UTP regulations issued in December 2010 (Regs. Sec. 1.6012-2(a)(4), T.D. 9510) fell short of resolving the concerns of many commentators that filing a Schedule UTP causes a waiver of the attorney-client privilege, the Sec. 7525 tax adviser privilege, or the work product doctrine. Provisions relating to the assertion of privilege were not included in the regulation.

SCHEDULE UTP TRENDS

Surprisingly, the number of Schedule UTP filers and number of reported positions were both lower in tax year 2013 compared with the three previous years (see IRS UTP Filing Statistics, available at tinyurl.com/d92o73l). Not surprisingly, the most typical UTPs in all years have to do with the Sec. 41 research and development credit and Sec. 482 transfer pricing, with Sec. 263 (capitalization) and Sec. 199 (domestic production activities) tied for third place in terms of the substantive areas being reported. Many UTPs in the past four years also involved Sec. 162 (business expenses) issues.

When the initial draft Schedule UTP was released in 2010, passthrough and tax-exempt entities were excused from filing. However, the IRS has not modified its position that it will consider expanding the filing requirement to include passthrough entities (see Announcement 2010-75).

SCHEDULE UTP DISCLOSURE MECHANICS

Now that the phase-in period under the UTP regulations has ended and the UTP reporting threshold has dropped, tax practitioners are struggling more than ever with the mechanics of filing Schedule UTP while preserving the privileged status of workpapers and tax positions. Until Congress acts or the courts resolve these issues, it is unclear whether filing a Schedule UTP will cause the waiver of a privilege. Consequently, tax practitioners considering whether to file a Schedule UTP should make sure they thoroughly understand the reporting requirements under the UTP regulations and file only if absolutely necessary and only in the required form and content of disclosure.

UTP reporting is required of all corporations that prepare or issue audited financial statements, that have assets equal to or exceeding $10 million, that have taken a tax position on their U.S. federal income tax return for the current or a prior tax year, and either:

- Recorded a reserve with respect to the tax position for U.S. federal income tax, interest, or penalty; or
- Did not record a reserve for a tax position for which litigation is anticipated.

A corporation expects to litigate a position if it determines that the probability of settling with the IRS is less than 50% and that under applicable accounting standards (GAAP, IFRS, etc.), no reserve was recorded because the corporation determines it is more likely than not to prevail on the merits in litigation (see also "Schedule UTP: The Early Returns Are In," *JofA*, Nov. 2012, page 54).

If it is determined that the corporation is required to file a Schedule UTP, the tax practitioner should pay particular attention to Part III, which requires a concise description of all UTPs identified in Parts I and II of the schedule. It is a description of the relevant facts affecting the tax treatment of the position and information that reasonably can be expected to apprise the IRS of the identity of the tax position and the nature of the issue. It does not require the corporate taxpayer to disclose the rationale and nature of the uncertainty.

Taxpayers must remain vigilant when drafting the description of UTPs in Part III to avoid inadvertently disclosing any opinions, analyses, or evaluations that are protected by the attorney-client, federal tax advice, or work product privileges. The description should be limited to the information required by the instructions to Part III of Schedule UTP. On the one hand, professional practice rules would have the preparer disclosing very little about the transaction so as to not waive privileges. On the other hand, IRS guidance focuses on ensuring that descriptions (in addition to identifying a tax issue) provide sufficient relevant facts affecting the tax treatment of the item and sufficiently describe the nature of the issue. This presents the preparer with a Catch-22: to overdisclose and possibly waive privilege, or to underdisclose and face the consequences of improper disclosure, which arguably could trigger a variety of penalties. The IRS's guidance is available at tinyurl.com/8mgwke9.

PENALTIES

Sec. 6662 requires a taxpayer to disclose tax return positions for which the taxpayer does not have substantial

authority or face potential penalties. In Announcement 2010-9, the IRS said it was considering seeking legislation to impose a failure-to-file penalty if Schedule UTP was omitted or did not provide adequate disclosure. Following the logic of the announcement, the IRS would have to conclude that a defective or missing Schedule UTP would rise to the level of a Sec. 6651(a) penalty for a complete failure to file a required return. Many commentators believe that the IRS's position exceeds the bounds set by Congress, and to date, no such legislation has been introduced.

To be cautious, tax return preparers should, at a minimum, perform two layers of due diligence. First, they should reasonably inquire whether any tax positions may rise to the level of disclosure. If so, they should craft a disclosure that provides sufficient information to consider the return complete while ensuring the disclosure does not inadvertently waive privileges or other evidentiary protection held by taxpayers.

More Due Diligence Needed

As a road map to potential audit issues, Schedule UTP has drawn much attention over the past few years. However, many taxpayers and preparers have failed to focus on it, due to the high threshold of applicability. Now, since the asset threshold for filing has lowered, many more tax return preparers will need to take the following actions, requiring more due diligence:

- Determine whether a Schedule UTP is required.
- If a Schedule UTP is required, then determine how the preparer will comply with the disclosure rules while avoiding inadvertent waiver of various taxpayer legal protections.
- Determine how to communicate with clients regarding the possibility of various penalties associated with nonfiling or inadequate disclosure. ❖

*By **Robert A. Mathers**, CPA/PFS/ABV, J.D. (rmathers@dkattorneys.com), shareholder, and **Mark Kmiecik**, J.D., LL.M. (mkmiecik@dkattorneys.com), senior attorney, both with Davis & Kuelthau SC in Wisconsin. Mathers also is a member of the AICPA Tax Practice Responsibilities Committee.*

To comment on this article or to suggest an idea for another article, contact Paul Bonner, senior editor, at pbonner@aicpa.org or 919-402-4434.

TaxMatters

Visit journalofaccountancy.com for news updated daily and hyperlinks to sources cited in Tax Matters.

Small Businesses Excused From Filing Form 3115 to Comply With Repair Regs.

IRS provides relief requested by AICPA and numerous others for accounting method changes.

Small business taxpayers will be allowed to make certain accounting method changes under the tangible property (or "repair") regulations without filing Form 3115, *Application for Change in Accounting Method*, in their first tax year beginning on or after Jan. 1, 2014, the effective date of the repair regulations, the IRS announced in Rev. Proc. 2015-20. The revenue procedure also allows small businesses to make certain accounting method changes on a cutoff basis, that is, with a Sec. 481(a) adjustment that only takes into account amounts paid or incurred, and dispositions, in tax years beginning on or after Jan. 1, 2014.

For purposes of the revenue procedure, a small business is defined as one with total assets of less than $10 million on the first day of the tax year for which the accounting method change is effective or with average annual gross receipts of $10 million or less for the prior three tax years. The IRS reports that since issuing the final repair regulations, it received numerous requests to make the process of applying the regulations simpler for small businesses and especially to allow them to apply the new rules on a cutoff basis and without filing Form 3115 (see, e.g., the AICPA's letters of Oct. 8, 2014, and Nov. 7, 2014, at tinyurl.com/n6vtwq7 and tinyurl.com/m6sdse7, respectively, and prior coverage, "Tax Matters: AICPA: Repair Regulations' *De Minimis* Safe Harbor Is Set Too Low," *JofA*, Jan. 2015, page 72).

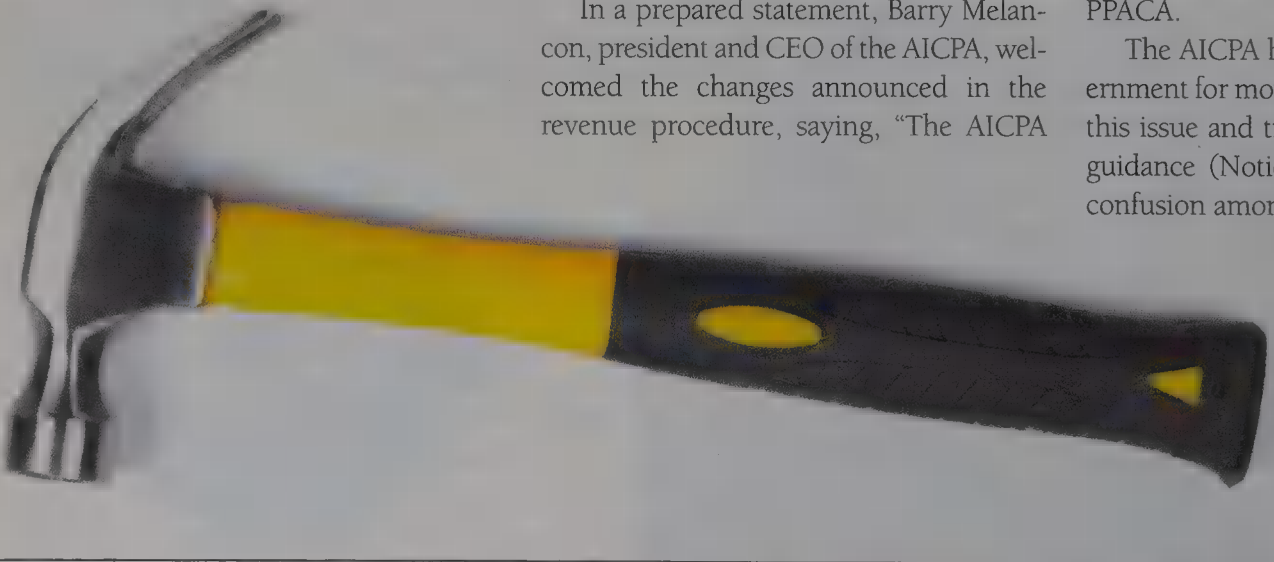
In response to this feedback, the IRS is allowing small businesses that choose to prospectively apply the tangible property regulations to amounts paid or incurred, and dispositions, in tax years beginning on or after Jan. 1, 2014, to make tangible property accounting method changes with a Sec. 481(a) adjustment covered by the revenue procedure on their federal tax return without including a separate Form 3115 or separate statement. Taxpayers that wish to file Form 3115 may do so, however.

In addition, the IRS is asking taxpayers to comment on whether the *de minimis* safe harbor under the tangible property regulations for taxpayers without applicable financial statements, which is currently $500, should be increased. Comments should be submitted to the IRS by April 21 to the addresses in the revenue procedure.

In a prepared statement, Barry Melancon, president and CEO of the AICPA, welcomed the changes announced in the revenue procedure, saying, "The AICPA and the state CPA societies have made numerous requests on behalf of our members and their small business clients for this relief over several months. We appreciate that the IRS understood how burdensome the regulations are for small business and acted to provide relief for 2014 and future year tax returns."

■ Rev. Proc. 2015-20

*By **Sally P. Schreiber**, J.D., a JofA senior editor.*



Sec. 4980D Excise Tax Relief Is Available for Certain Small Employers

IRS gives limited transition relief for employer payment plans and 2% S corporation shareholder arrangements.

In Notice 2015-17, the IRS announced transition relief from the application of the Sec. 4980D excise tax, which applies to health plans that do not meet the market reform requirements of the Patient Protection and Affordable Care Act (PPACA), P.L. 111-148.

The Sec. 4980D excise tax of $100 per day per affected participant applies to health insurance employer payment plans that do not comply with the market reforms imposed on group health plans by PPACA.

The AICPA had been pressing the government for months to provide answers on this issue and transition relief. Earlier IRS guidance (Notice 2013-54) caused great confusion among practitioners about how to treat reimbursements of medical insurance premiums through employer payment plans and S corporation health care arrangements for 2%

S corporation shareholder-employees. The latest notice provides some clarification. It also announced that employers with employer payment plans as described in Notice 2013-54 that are not applicable large employers are eligible for temporary relief from assessment of the Sec. 4980D excise tax. An employer is not an applicable large employer (and therefore is not liable for the Sec. 4980H shared-responsibility payment) if it employs fewer than 50 full-time employees on business days during the preceding calendar year. This relief applied through 2014 and, for employers that are not applicable large employers in 2015, through June 30, 2015. This is intended to give small employers additional time to find health insurance coverage that complies with the law. Eligible employers are also excused from filing Form 8928, *Return of Certain Excise Taxes Under Chapter 43 of the Internal Revenue Code*.

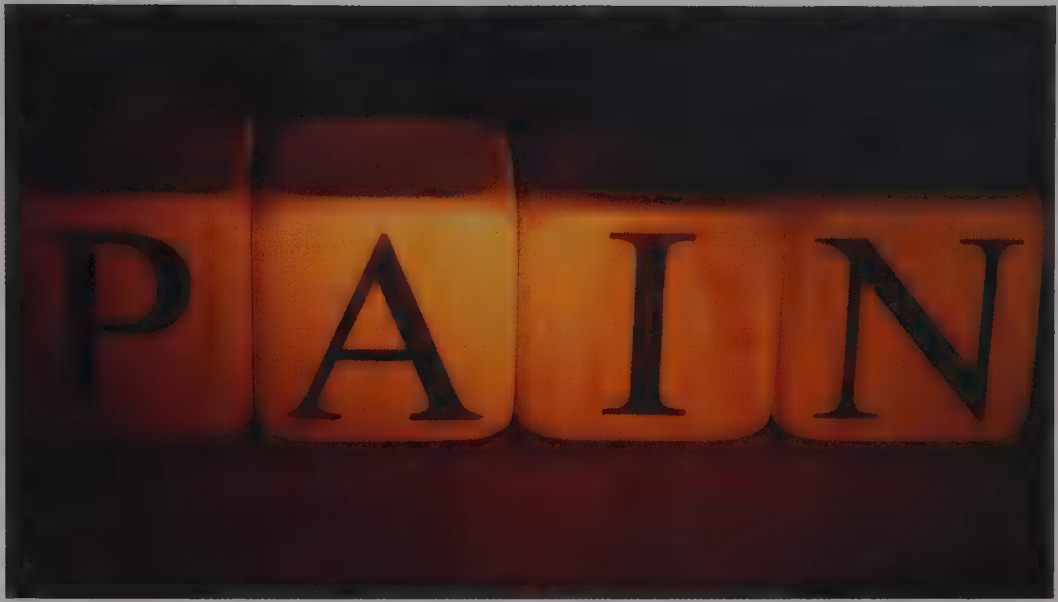
In the notice, the IRS also addresses the treatment of a 2% S corporation shareholder. In a 2% shareholder-employee health care arrangement, the corporation typically purchases insurance for the shareholder, the premiums are included in the shareholder's income, and he or she takes a deduction for them. Until further notice and at least until the end of 2015, these 2% shareholder plans will not be required to meet the market reform requirements. S corporations with these arrangements also will not be required to file Form 8928.

The notice also discusses the integration of a Medicare premium reimbursement arrangement and a TRICARE-related health reimbursement arrangement (HRA) with a group health plan and whether those plans qualify as group health plans that satisfy the market reform rules.

In addition, the notice discusses whether certain employer payments to employees for health insurance coverage satisfy the requirements of the health care reform law.

■ Notice 2015-17

*By **Sally P. Schreiber**, J.D., a JofA senior editor.*



Egg Donor's Payment for Pain Is Taxable Income

Payments a woman received under a voluntary egg-donation contract could not be excluded from income as damages for physical injury or sickness under Sec. 104(a)(2).

The Tax Court held that a woman could not exclude from gross income the payments she received under contract for pain and suffering she experienced from providing her eggs to infertile women under two egg-donation contracts. Although the contracts clearly stated the payments were in part for pain and suffering, the amounts were not damages under Sec. 104(a)(2) because the payments were compensation for an advance waiver of damages, according to the court.

Facts: During 2009, Nichelle Perez signed two egg-donation contracts with The Donor Source, a California for-profit company that matches egg donors with women and couples who are attempting to have a child. As part of the egg-donation process, Perez was required to complete certain medical procedures at her home and in a clinic, in return for which she would be compensated for her time, effort, inconvenience, and pain and suffering during the process. Payment was not contingent upon Perez's producing usable eggs, nor was it for the sale of body parts. In 2009, she went through the egg-donation process twice, causing her significant pain, discomfort, and distress. She received $10,000 for each egg donation and later received a 2009 Form 1099 for $20,000. Perez did not report the $20,000 on her 2009 federal income tax return and later received a deficiency notice from the IRS. She petitioned the Tax Court for relief.

Issues: Sec. 104(a)(2) excludes from gross income any amount of damages (other than punitive damages) received because of physical injuries or physical sickness. The excludable damages can be received from a lawsuit or from an out-of-court settlement and can be received either periodically or as a lump sum. Regs. Sec. 1.104-1(c)(1) defines damages as an "amount received (other than workers' compensation) through prosecution of a legal suit or action or through a settlement agreement entered into in lieu of prosecution."

The taxpayer argued that the payments were for the pain, suffering, and physical injuries she suffered because of the egg-donation process and that the amount should be excluded from income under Sec. 104(a)(2) despite the fact that she did not receive the payments in a lawsuit or under threat of a lawsuit. She contended that the regulation's requirement of a lawsuit or a threat of a lawsuit was an impermissible interpretation of the statute. The IRS argued that the payments were compensation for services and thus taxable.

Holding: The court believed that Perez endured pain and suffering from personal injuries, but because she signed a voluntary contract in advance of those injuries under which she received compensation for them, the payments were received from a waiver, rather than damages. The court added, "We see no limit on the mischief that ruling in Perez's favor might cause," citing professional athletes, construction workers, farmers, and ranchers, all of whose compensation reflects a risk that they may endure pain and suffering by performing the services they agree to in their contracts. If the clinic or The Donor Source had exceeded the terms of the contract, an argument could be made the payments were damages; however, the clinic and The Donor Source did exactly what Perez consented to, so the payments were compensation for services, according to the court.

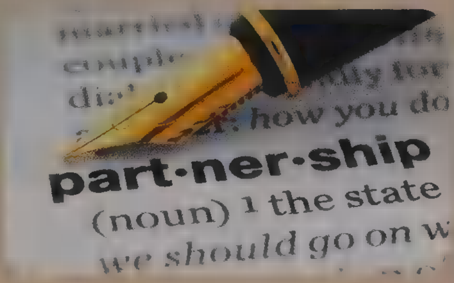
In 1996, an amendment to Sec. 104(a)(2) dropped a requirement that the excludable amounts must be based on some tort or tort-type claim, and, in 2009, the Sec. 104 regulations were also amended to reflect the change in the law. However, the Tax Court concluded that this did not affect the outcome in the taxpayer's case. The Tax Court found that the amended regulations merely kept the tax law in alignment with the shift in American law from common law tort remedies toward administrative or statutory (no-fault) remedies.

■ *Perez*, 144 T.C. No. 4 (2015)

*By **Charles J. Reichert**, CPA, instructor of accounting, University of Minnesota–Duluth.*

LINE ITEM

IRS Disagrees With Tax Court on Partners' COD Exclusion



The IRS will not acquiesce to Tax Court decisions allowing general partners who guaranteed the debt of their partnership and were not in bankruptcy in their individual capacity to exclude from gross income cancellation-of-debt (COD) income arising from a Title 11 bankruptcy proceeding of the partnership (Action on Decision 2015-001).

The cases are *Estate of Martinez* (T.C. Memo. 2004-150), *Gracia* (T.C. Memo. 2004-147), *Mirarchi* (T.C. Memo. 2004-148), and *Price* (T.C. Memo. 2004-149). In holding the plaintiffs could exclude their entire shares of a partnership's COD income from gross income, the Tax Court, invoking the principle of judicial comity, found no reason to question the bankruptcy court's assertion of jurisdiction over the partners individually for the purpose of discharging and releasing them from liability for claims arising from their status as general partners and their personal guaranty agreements.

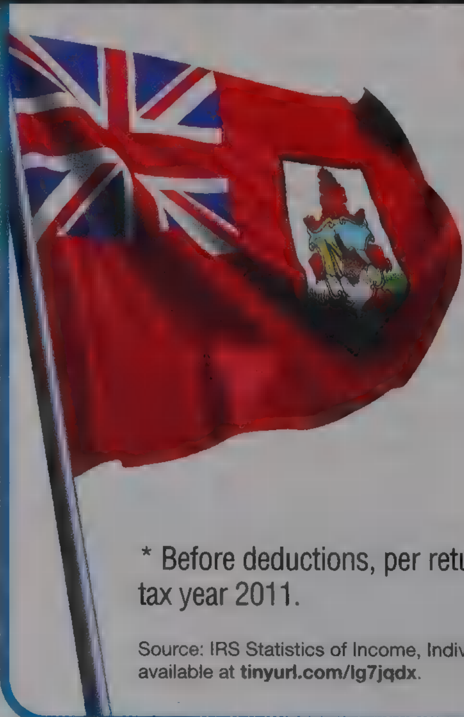
However, in the action on decision, the IRS pointed to the legislative history of Sec. 108(a)(1), which provides exclusion of COD income for reasons including discharge in a Title 11 case and insolvency. The IRS averred that the exclusion applies only to the bankrupt or insolvent partners and not to all the partners of a bankrupt partnership.

IRS Issues New and Revised Passenger Automobile Depreciation Limits

New figures for 2014 reflect the retroactive extension of bonus depreciation.

The IRS revised the amounts of depreciation taxpayers can take for the first year they use a passenger automobile (including a truck or van) for business in 2014 and issued new figures for 2015 (Rev. Proc. 2015-19, amplifying and modifying Rev. Proc. 2014-21). The revised numbers for 2014 were necessary because the Tax Increase Prevention Act of 2014, P.L. 113-295, extended bonus depreciation retroactively to the beginning of 2014. However, the act did not extend bonus depreciation for 2015, so an additional bonus depreciation amount is unavailable for passenger automobiles placed in service in 2015.

Highest Foreign Earned Income Exclusions



	Country of residence	Average amount*
1	Bermuda	$85,721
2	Luxembourg	$82,104
3	Singapore	$81,838
4	Switzerland	$79,132
5	Angola	$78,087
6	Belgium	$77,298
7	Kuwait	$76,869
8	Qatar	$76,715
9	Afghanistan	$76,228
10	Saudi Arabia	$75,119
All geographic areas		**$63,089**

* Before deductions, per return filing Form 2555, *Foreign Earned Income*, tax year 2011.

Source: IRS Statistics of Income, Individual Foreign Earned Income/Foreign Tax Credit, Table 2, available at **tinyurl.com/lg7jqdx**.

Under the retroactive extension, the amount of the first-year depreciation limitation for 2014 for passenger automobiles to which bonus depreciation applies is increased by $8,000. For passenger automobiles (other than trucks or vans) placed in service during calendar year 2014 to which 50% first-year bonus depreciation applies, the depreciation limit under Sec. 280F(d)(7) is $11,160 for the first tax year. Trucks and vans to which bonus depreciation applies have a slightly higher limit: $11,460 for the first tax year.

For 2015, for passenger automobiles (other than trucks or vans) placed in service during that calendar year, the depreciation limit under Sec. 280F(d)(7) is $3,160 for the first tax year. For trucks and vans, the limit is $3,460 for the first tax year.

For passenger automobiles for 2015, the limits are $5,100 for the second tax year; $3,050 for the third tax year; and $1,875 for each successive tax year.

For trucks and vans for 2015, the limits are $5,600 for the second tax year; $3,350 for the third tax year; and $1,975 for each successive tax year.

Sec. 280F(c) limits deductions for the cost of leasing automobiles, expressed as an income inclusion amount according to a formula and tables prescribed under Regs. Sec. 1.280F-7. The revenue procedure provides an updated table of the amounts to be included in income by lessees of passenger automobiles and another for trucks and vans, in both cases with lease terms that begin in calendar year 2015.

*By **Sally P. Schreiber**, J.D., a JofA senior editor.*

Proposed Rules Would Govern Sec. 41 Credit for Software

The IRS offers a test and safe harbor for qualifying dual-function internal-use software.

The IRS issued long-awaited proposed rules on what type of internal-use software qualifies for the Sec. 41 research credit (REG-153656-03). Although the new rules are proposed, not final, the IRS says it will not challenge taxpayers' return positions that apply these rules currently.

Final regulations (T.D. 8930) on internal-use software and the research credit were released in 2001 but caused considerable controversy among practitioners. In response, in 2004, the IRS issued an advance notice of proposed rulemaking (2004 ANPRM), announcing that it would consider the comments it had received and promulgate new proposed regulations.

Internal-use software is software developed by (or for the benefit of) the taxpayer primarily for use in general and administrative functions that facilitate or support the conduct of the taxpayer's trade or business. General and administrative functions are limited to financial management, human resources management, and support services functions. Internal-use software generally does not qualify for the credit but can if it meets a high-threshold-of-innovation test with three requirements:

1. The software is innovative (defined as resulting in a reduction in cost or improvement in speed or other measurable improvement that is substantial and economically significant, if the development is or would have been successful);

2. The taxpayer incurs significant economic risk in developing the software (has committed substantial resources to develop it and, due to technical risk, there is substantial uncertainty that the costs of development will be recovered in a reasonable time); and

3. The software is not commercially available without considerable modification (i.e., the software cannot be purchased, leased, or licensed and used for the intended purpose without modifications that would satisfy the first two requirements).

ILLUSTRATION BY COGAL/ISTOCK

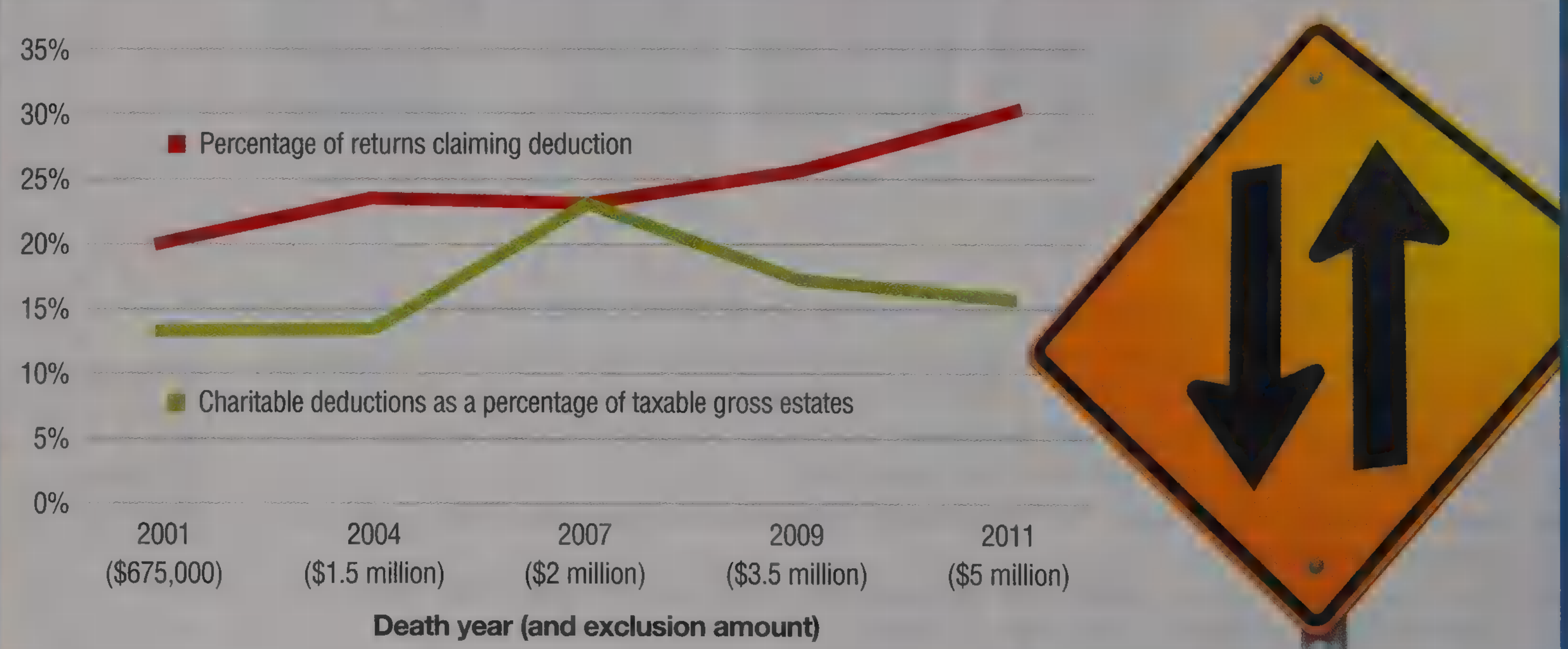
Dual-function internal-use software, which serves functions that are general and administrative and those that are not, must overcome a presumption in the proposed rules that it is developed for nonqualifying internal use. The presumption will not apply if the taxpayer "can identify a subset of elements of dual function computer software that only enables a taxpayer to interact with third parties or to allow third parties to initiate functions or review data (third party subset)" (REG-153656-03, preamble). However, if the taxpayer can identify a third-party subset of the dual-function computer software, the portion of research expenditures allocable to the third-party subset may be eligible for the research credit, provided all the other applicable requirements are met.

In addition, the rules will provide a safe harbor that applies to dual-function software if a third-party subset cannot be identified, or to the remaining subset of dual-function computer software after the third-party subset has been identified (dual-function subset). Under the safe harbor, 25% of the taxpayer's qualified research expenditures of the dual-function subset is included in computing the amount of the credit if the taxpayer's research activities for the dual-function subset are qualified research and the use of the dual-function subset by third parties or by the taxpayer to interact with third parties is reasonably anticipated to constitute at least 10% of the dual-function subset's use.

Requests for comments. The IRS requested comments on all aspects of these proposed rules but is especially interested in (1) comments on the appropriate definition and treatment of connectivity software that allows multiple processes running on one or more machines to interact across a network, sometimes referred to as bridging software, integration software, or middleware; (2) for the dual-function safe harbor, comments on the ease of measuring the reasonably anticipated use of software to interact with third parties and by third parties to initiate functions or review data based on reasonable methods, such as processing time, amount of data transfer, etc.; and (3) which facts and circumstances, other than those set out in the legislative history, should be considered in determining whether internal-use software satisfies the three prongs of the high-threshold-of-innovation test.

Effective date. Although many commenters had requested that these regula-

Charitable Deductions by Estates



Charitable deductions by taxable estates fell from 2007 to 2011 in aggregate amount and as a percentage of aggregate taxable estates. The percentage of taxable estates claiming a charitable deduction increased from 20% to 30% from 2001 to 2011, and the average deduction amount increased, slightly offsetting a drastic reduction in the overall number of taxable estates (from 50,456 to 4,415) and taxable estates claiming a charitable deduction (from 10,294 to 1,344).

Source: IRS Estate Tax Statistics, Table 1, **tinyurl.com/kfxsap4**.

tions apply retroactively, the IRS decided to apply them prospectively. Therefore, they will apply to tax years ending on or after the date they are published as final in the *Federal Register*. However, the IRS will not challenge return positions applying these rules for tax years ending on or after Jan. 1, 2015. For tax years ending before that date, taxpayers may choose to follow either all of the internal-use software provisions of Regs. Sec. 1.41-4(c)(6) in the 2001 final regulations or all of the internal-use software provisions of Regs. Sec. 1.41-4(c)(6) in the 2001 proposed regulations.

■ REG-153656-03

*By **Sally P. Schreiber**, J.D., a JofA senior editor.* ❖

Tax Matters editor Paul Bonner can be reached at pbonner@aicpa.org or 919-402-4434.

LINE ITEM
Anti-Splitter Rules Finalized

The IRS issued regulations under Sec. 909 regarding the foreign tax credit splitter rules. Under Sec. 909, if a foreign tax credit splitting event occurs with respect to a foreign income tax paid or accrued by a taxpayer, the taxpayer cannot take the foreign tax into account for federal income tax purposes before the tax year in which the taxpayer takes the related income into account (T.D. 9710). The new regulations finalize with a few minor clarifications the temporary regulations issued under Sec. 909 in 2012.

Included in the clarifications are changes to the definitions of reverse-hybrid splitter arrangements, loss-sharing splitter arrangements, and hybrid-instrument splitter arrangements and to the interim mechanical rules for tracking split taxes and related income. The preamble to the regulations notes that the regulations do not address other mechanical issues and that the IRS is still considering these issues and will address them in future guidance.

These final rules apply to tax years ending after Feb. 9, 2015.

Sponsored by

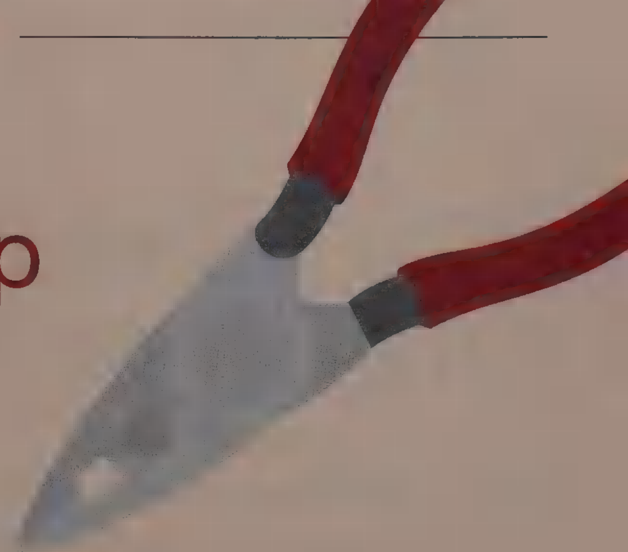
BECKER

Bloomberg BNA

OfficeTools

Career Toolkit

Tips and best practices for employers and employees



A 7-Step Career Checkup

These questions will help determine if you are still on track to obtain that dream job.

by Beth A. Berk, CPA, CGMA

As they go through life, many CPAs set career goals that include attaining a specific title or role. That could range from being named CFO at a *Fortune* 500 firm to owning their own business.

Some of these goals, such as moving into the C-suite or being a partner at a public accounting firm, are obviously long-term objectives. There will be many years, and sometimes decades, between where you are in your career now and obtaining that dream title. So how do you know if you are still on track to reach that goal? How can you recognize if you've gotten stuck—whether in middle management or simply in a job that can no longer help you reach your desired career objective?

Far too often, job seekers tell me that they are frustrated that their careers aren't progressing in the manner they envisioned. CPAs, whether in public accounting or business and industry, can get stuck due to issues in three main areas: skills (technical, education/training, and soft skills), lifestyle choices (location, cost of living, and work/life balance), and awareness/self-awareness (knowing your strengths and weaknesses, understanding what others think of you, and fitting into your team's culture).

During the course of your career, you should continually assess yourself in these areas through a career checkup. Once a year, take time to think about where you are in your career and where you want to go. Determine if you're still moving toward that goal and, if not, figure out why. This assessment will help prevent you from getting stuck. Here are some questions to ask during your next career self-assessment:

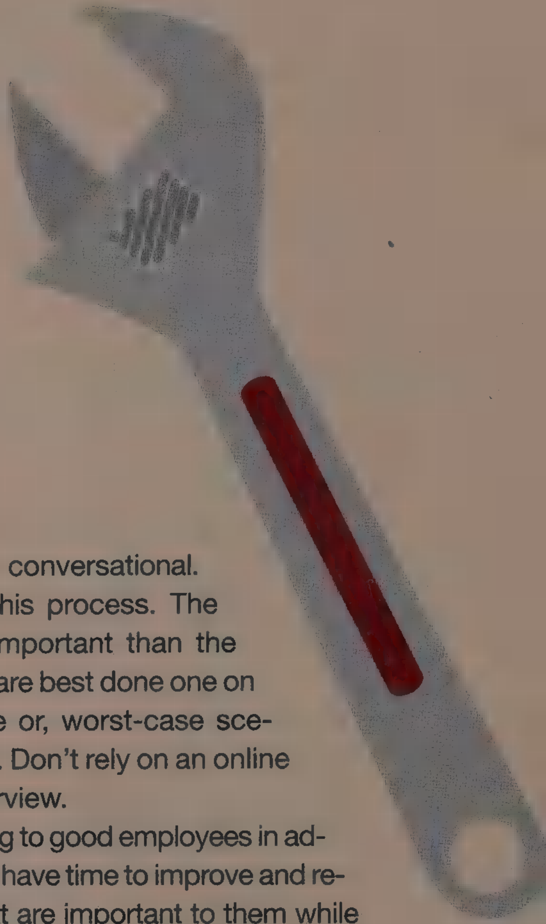
1. Do you know the "rules" for climbing your organization's corporate ladder to ensure you can, in fact, climb it? For example, if all previous CFOs at your company have worked at a Big Four public accounting firm, and your background is different, what is the likelihood that you can work your way up to the CFO role? Should you be setting your sights on a different company or a different industry?
2. Are you the one who offers suggestions and ideas at work, or do you implement others' ideas? For example: Do you make recommendations for your department/business unit that can be implemented companywide that may result in higher revenue generation or lower costs? Developing ideas, not just implementing someone else's vision, can help get you promoted.
3. When given the opportunity to mentor or train staff, do you happily do so, or do you view this as another thing to add to your already busy day? Are you helping to cross-train staff so they can be promoted and you can be promoted, too? Or are staff members going around you or getting promoted above you?
4. In a similar vein, do your peers and senior management view you as the "go to" person for getting things done? If not, what can you do to be seen as that type of employee?
5. How do your lifestyle choices align with your current career trajectory? Influencing factors include where you live, your family situation, your health, and your personal work/life balance ideal. Maybe you live in an area where career options in your industry or profession are limited. You may have to relocate to get ahead, especially if your organization has multiple locations nationally or worldwide.
6. Is management keeping you where it needs you—to your detriment? Sometimes managers are content to keep a strong technical employee in the same spot simply because it makes the manager's job easier. That prevents the growth necessary for advancement. How does management view you and your future in the company? Have you ever asked? Perception is reality—both in politics and promotions.
7. Lastly, how do you deal with change? Consider getting out of your comfort zone regularly. Doing so will showcase your ability to adapt and learn about yourself and new things, allowing you to lead others.

Everyone's situation is different. Your career path doesn't have to be the same as the person in the cube or office next door. Too much patience or lack of speaking up can eventually turn into complacency, frustration, and lack of engagement—habits that can stop your advancement right in its tracks. By giving yourself a career checkup regularly, you can stay proactive and create strategies that will help you reach your goals.

(This article is adapted from "A Seven-Step Career Checkup," CPA Insider, *July 14, 2014.)*

[redacted] ***A. Berk***, *CPA, CGMA (bethaberk@msn.com), is an independent recruiter based in Maryland.*

Why Do Your Top Employees Stay?



If you want to keep your stars, preempt the exit interview with a "stay interview."

by Doug Blizzard

As the economy slowly improves, many companies are concerned that their top talent might leave for greener pastures. Before these key people become former employees or, worse, disgruntled and unengaged employees, consider conducting "stay" interviews with them.

What is a "stay" interview? It's akin to an exit interview, but the goal is to understand why the employee is staying with your firm. The idea is that once you identify those factors, you can reinforce or amplify them. Stay interviews, in other words, are designed to prevent you from needing exit interviews.

Reasons Employees Stay

Employees stay with companies for many reasons: pay, benefits, stock options, career opportunities, security, a good manager, family-friendly policies and schedules, etc. Yet each employee may join and remain at a company for different reasons. And those reasons change as people move through their lives. Unfortunately, at many companies the reality that people are different collides with [redacted] company's desire to be consistent, leaving many key performers unsatisfied.

But what if you knew that the main reason your top accountant remains at your company was for a flexible work schedule? Armed with that knowledge, how would you confront a new leader who doesn't believe in flextime and wants everyone working a standard 8-to-5 in-the-office schedule? For many technical managers, "work at home" sounds like an opportunity to be taken advantage of, so they avoid or minimize it. They can all recount that one person who did, in fact, take advantage of it. That belief system is called "managing for the 5%." In other words, managers let the 5% who may do wrong shape practices for the other 95%.

In a stay interview, you "interview" your top performers and your top potential performers periodically before there are any hints that they might leave. Find out what's on their mind. What's important to them? Are they having any issues? Ask them for ideas to improve culture, processes, and policies. Keep the questions simple and conversational. Don't over-engineer this process. The discussion is more important than the form. Stay interviews are best done one on one and face to face or, worst-case scenario, over the phone. Don't rely on an online survey for a stay interview.

Since you are talking to good employees in advance, you'll hopefully have time to improve and reinforce the factors that are important to them while they are still a part of your organization. A word of caution: Be prepared to apply what you learn to the work environment. It's much worse when you find out about a problem and do nothing about it versus just being conveniently unaware.

Ideally, stay interviews bring star employees even closer to the company because they know they have a real voice and that management cares. The interviews are a great trust-building opportunity.

What to Ask

So what do you ask workers during these interviews? My organization advises companies to consider:

- Why have you chosen to remain with our organization?
- Are we meeting your career development goals?
- If an outside recruiter were to contact you, what reasons would you list for not being interested in another job opportunity?
- What do you enjoy most about your job?
- What improvements could the company make?

Stay interviews aren't meant to be a substitute for overall employee satisfaction surveys or exit interviews. However, stay interviews are laser focused on only one employee subset … your best employees.

(This article is adapted from "Why Do Your Top Employees Stay?" CPA Insider, *Sept. 8, 2014.)*

Doug [redacted] *(doug.blizzard@capital.org) is the vice president of membership for CAI Inc., a human resource management firm with locations in Raleigh, N.C., and Greensboro, N.C.*

How to Prevent New Stars From Flaming Out

Getting off to a good start can make a big difference in the long-term success of a new employee.

by Doug Blizzard

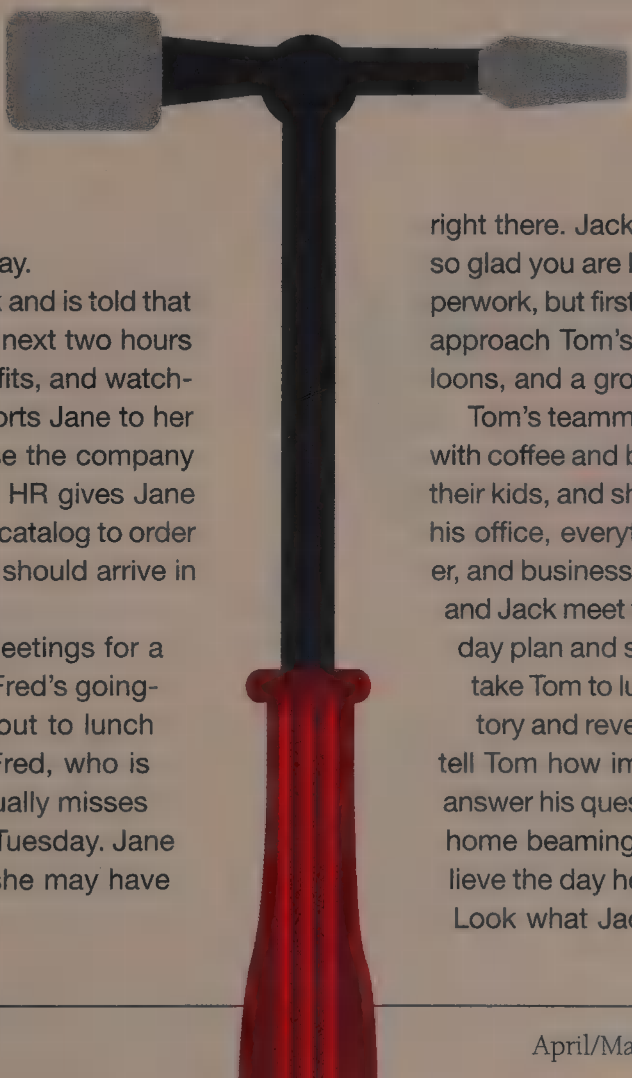
The first day on the job can create a range of emotions for a new employee: excitement, anticipation, fear. Getting off to a good start can make the difference between an employee being motivated and engaged or just riding out his or her time until something better comes along.

I'm going to illustrate my point by tracking the first-day experiences of two new star employees: Jane Regret and Tom Happy. Which of these employees would be working at your firm?

Jane's first day starts with her arriving early, beaming with excitement. But Jane becomes concerned as she learns the receptionist wasn't expecting her and doesn't know whether her boss, Joe Smith, is in. After 10 minutes of calls and pages, the receptionist finally reaches Joe, who apparently forgot Jane was starting that day.

Jane is sent to HR to fill out paperwork and is told that Joe will meet her later. Jane spends the next two hours in HR signing forms, hearing about benefits, and watching an old company video. HR then escorts Jane to her desk, which really isn't her desk because the company hasn't yet figured out where she will sit. HR gives Jane the policy manual to read and sign and a catalog to order supplies and tells her that her computer should arrive in a few days.

Joe Smith finally pops in between meetings for a quick hello, telling Jane he'll see her at Fred's going-away party this afternoon. After going out to lunch by herself, Jane attends the party for Fred, who is moving on after only five years. Joe actually misses the party, so Jane will try to find him on Tuesday. Jane gets home and tells her husband that she may have made a big mistake.



Free Shirts and Baseball Tickets

Now, let's check in with Tom Happy. One day, Tom's wife, Linda, is surprised to find a large package from Tom's new employer on the porch—even though he hasn't started working there yet. As Linda opens the box, she says to Tom, "Wow, it's all kinds of company merchandise—shirts, hats, sweatshirts. There is also a copy of the company handbook for you to read. And, look, there are tickets to the local baseball game. How did they know we love baseball? And a note from your boss, Jack Smith: 'Welcome aboard, can't wait to start hitting home runs together. See you in a month!'"

Tom arrives early on his first day, and as he approaches the receptionist, he sees his picture on the large TV in the lobby. The TV has a caption that reads, "Today is Tom Happy day! Welcome, Tom." The receptionist greets Tom and tells him that Jack will be right there. Jack arrives shortly and tells Tom, "I am so glad you are here. We need you to sign some paperwork, but first let's meet your teammates." As they approach Tom's work area he sees streamers, balloons, and a group of people.

Tom's teammates have gathered to welcome him with coffee and bagels. They talk about baseball and their kids, and share funny stories. When Tom enters his office, everything is there—supplies, a computer, and business cards. After a quick visit to HR, Tom and Jack meet for several hours to review Tom's 90-day plan and success factors. Several co-workers take Tom to lunch, where they share company history and reveal why they like working there. They tell Tom how important his role is to the team and answer his questions about his new job. Tom arrives home beaming and tells Linda how she won't believe the day he had. Linda replies, "I have an idea. Look what Jack sent us—a bottle of wine with a

note that reads, 'Welcome aboard, Tom and Linda. Let's raise a toast to a great new relationship. We're so glad you two have joined our family.'"

These stories, while extreme, teach us valuable lessons about how we should treat new employees. Think about Tom and Jane. Tom is already motivated and will say positive things about the company to family and friends. Jane is already questioning her decision. She'll soon be susceptible to being recruited away or making unflattering posts about the firm on social media.

Many organizations resemble Jane's experience. Everyone is doing more with less, so few people have time to go that extra mile for new employees. At other companies, "only the strong survive," so they intentionally do not pamper newbies.

Feeling unwelcome, having an inaccessible boss, and having an unclear job plan all increase the odds that a new star will leave your firm. And once word gets out about your culture, you'll have a harder time attracting new stars. You'll also lose the training costs you've sunk into new employees as they leave. Depending on the position, it can take from eight to 28 weeks for a new employee to reach full productivity.

Best Practices for On-Boarding

Here are some components of the best on-boarding plans. These activities don't require a large budget, just time and attention.

- ***Activities that make a new employee feel welcome.*** First impressions are extremely hard to overcome. Instead of just throwing parties for people who are leaving, celebrate your new stars.
- ***One-on-one time with supervisor and other leadership.*** Don't rush employees onto the payroll if you don't have time to spend with them. Consider having new employees start on a day other than Monday.
- ***Introduction into the formal and informal culture.*** Consider activities such as CEO meetings with new hires, "skip level" lunches, lunch-and-learns, and a buddy system to help new employees understand expected behaviors.
- ***A carefully chosen mentor or buddy*** to help new employees navigate your culture, processes, and operations. Make your office a safe place to learn how things really operate.
- ***Just-in-time resources*** that provide answers for the new employee. Provide company acronym dictionaries, process diagrams, auto-enrollment into appropriate discussion forums, phone lists, and community information for relocations.
- ***Feedback and guidance on job performance.*** Make sure your new hires are working a clear 90-day plan versus walking around aimlessly, with regrets.

Start employees off right, and watch them soar. Or start them off wrong, and watch them fly away. It's your choice.

(This article is adapted from "How to Prevent New Stars From Flaming Out," CPA Insider, Oct. 15, 2013.)

Doug Blizzard *(doug.blizzard@capital.org) is the vice president of membership for CAI Inc., a human resource management firm with locations in Raleigh, N.C., and Greensboro, N.C.*

Want to Make a Career Change?

Read these tips first.

by Beth A. Berk, CPA, CGMA

If you're a CPA who feels as if it's time for a career change, you should consider some things before sending out résumés. Let's take a look at them before you decide to leap into a whole new direction.

- ***Determine whether leaving your employer is really the best option.*** Perhaps what you really need is a change in your working conditions, rather than a full-fledged career change. Maybe the hours or commute have become too demanding on your work/life balance if you now have a family, for instance. In that case, you

could ask about a reduced work schedule or telecommuting options. But don't tell your supervisor that you will leave if the firm is unable to meet your needs, unless you have another job or can afford to leave without a job.

- ***Ask yourself whether it's your firm or your field that's the problem.*** If you're in public accounting and are contemplating a switch to industry, for example, think about whether you really want to leave the field. If you've worked at a CPA firm for several years, you very likely enjoy the challenges and rewards that the work provides. Moving to a different firm may address your career concerns without costing you the benefits that you like about the profession.
- ***Assess what you want in a job and a career.*** Think about how well you deal with change, whether you work better in a structured or nonstructured environment, whether you're more comfortable having routines or prefer the challenge of the unknown, and how much time and energy you are willing to devote to getting up to speed in a new role.

If you decide you are ready for a switch from one accounting field to another, here are some ways to go about it:

- ***Concentrate your job search on firms or companies that focus on the same industry you're are currently working in so you can capitalize on your industry knowledge.*** For example, if you work for a manufacturing company and want to move to public accounting, concentrate your job search on CPA firms that specialize in providing services to clients in the manufacturing industry.
- ***Do your homework.*** Research employers, attend networking events, and request informational interviews with professionals who work at the firms or companies that interest you. Also, don't be afraid to ask family and friends if they know anyone who works at potential employers or to make a cold call to a professional. (It helps if you can say you've read about him or her, read one of his or her articles, or attended one of his or her presentations.)

Not all CPAs work for firms, for private companies, or as sole practitioners. If you're curious about what alternative career paths are open to CPAs, try the following:

- ***Search online for job titles on LinkedIn or a job board.*** Type in "CPA," "accountant," "taxes," and other relevant terms and read the descriptions to get an idea of what types of jobs are out there and what they require in terms of skills, training, and experience.
- ***Plan time for skill-building into your job search.*** If you'll need any additional certifications or licenses, or specific education, skills, or training for your new career, think about how long it will take to get this training, how you'll pay for it, and how this will impact the timing of your transition.

Regardless of which path you transition into, you should also consider the following:

- ***Find out about the pay scale for the positions that interest you.*** Should you need to take a step back in salary, determine whether you can afford to make such a change. If you do online salary comparisons, keep in mind that your current role might not garner the same salary in a different industry or area of the country.
- ***Determine whether your current location is still the right one.*** Figure out whether it offers the types of positions you're considering within commuting distance, and whether you'll need to move or travel as part of the job. Should you decide to move for a new job, investigate job opportunities in the new region in case you want to change employers later on.
- ***Don't expect to start out at the same level in your new field.*** Recognize that you may begin at the lower end or even at the bottom of the ladder. Be realistic about what your title, duties, salary, and hours (e.g. overtime, expected hours during busy season) will be like during your first few years after transitioning. Also, keep in mind that you may end up working for a professional who is younger than you or less experienced in the business world or industry. You may no longer be supervising staff, at least not in the beginning of your new role.

No matter what path you choose, take all necessary CPEs to keep your license active. You never know what opportunities may be waiting for a CPA.

(This article is adapted from "Want to Make a Career Change? Read These Tips First," CPA Insider, *March 2, 2015.)* ❖

Beth A. Berk*, CPA, CGMA (bethaberk@msn.com), is an independent recruiter based in Maryland.*

Ask the Expert

ADVERTISING SUPPLEMENT

Angie Brown

Director of Accounting Curriculum

Becker Professional Education

Angie Brown, CPA, leads the team that develops the accounting curriculum for Becker Professional Education's CPA Exam Review and CPE courses. She started as a Becker instructor in 2000 and teaches classes in the areas of auditing, financial accounting, managerial accounting, finance, and economics. She also taught accounting at Brigham Young University and at DeVry's Keller Graduate School of Management.

Becker, a part of DeVry Education Group, is a global leader in professional education. Throughout its more than 60-year history, Becker earned a strong track record of student success through its world-class teaching, curriculum, and learning tools.

Q How are top businesses adapting to attract and retain Millennial CPAs?

A The majority of our students, who are your current and future employees, are Millennials. Like your organizations, we have had to adapt to attract and retain them. Millennials are particularly concerned about work/life balance. Becker has adapted by offering students online and self-study courses in addition to traditional classroom courses so they can fit their CPA exam studies into their own schedules.

The CPA profession has traditionally been characterized by long work hours, especially during busy season. Quantity of work was emphasized, sometimes over quality of work. To attract Millennials, firms and other employers have had to provide more flexible work arrangements for their employees, such as working remotely or allowing nontraditional work hours.

Another characteristic of Millennials is the need for frequent feedback. Millennials are accustomed to the instant communication available through social media. Your Millennial CPAs do not want to wait until their annual review to know how they are performing. They want regular, even daily, encouragement and support. They also like to be rewarded for their performance. Some firms have adapted to this by providing more frequent feedback and rewards in the form of cash, gift cards, matched charitable contributions, or additional time off.

Q How can businesses tap into Millennial workers for help in areas such as change management or innovation?

A Businesses that do not involve Millennial workers in the decision-making process may be missing out on valuable insights. Millennial workers are well-educated, tech-savvy, and comfortable with diversity.

Research shows that Millennial workers characterize themselves as innovative. Millennial workers also prefer to work in collaborative group environments. They are not intimidated by seniority and generally believe that they have valuable insights to offer. Millennials want to have a voice in their organizations.

The best way to involve Millennials in change-management initiatives or innovations is to *ask* them to participate. Participation can be as formal as participation in special committees or as informal as companywide requests for ideas. The key is to get them involved and to listen to their feedback.

Q What are some strategies for bridging the different generations now in the workplace?

A We need to cultivate respect if we want to bridge the generations in the workplace. Millennials have been stereotyped by other generations as "overstimulated slackers" with a sense of entitlement and unreasonable expectations. Baby Boomers have been stereotyped as "inflexible," uncomfortable with technology, and resistant to change. These stereotypes do not serve us well in the workplace. Research shows that all generations, including Millennials, are committed to the success of their employers. Employee training on generational differences can be a simple and effective way of breaking down these stereotypes and helping employees across generations see that they have more similarities than differences.

It is also important to acknowledge that each generation has different preferences related to work style, communication, feedback, and work/life balance. Rather than characterizing these differences as right or wrong, organizations need to be nimble enough to accommodate these preferences. For example, while Baby Boomers prefer a traditional 9-to-5 (or later) workday, Millennials are more likely to ask for or expect flexibility in their schedules. Businesses need to be accommodating, or they will lose tomorrow's leaders.

Ask the Expert

George Farrah

Executive Editor
Bloomberg BNA
Tax & Accounting

George Farrah, CPA, oversees the technical content of tax analytical materials published by Bloomberg BNA. He joined BNA in 1988 and has developed many new product offerings and enhancements, including the Federal Excise Tax Navigator and the International Tax Developments Tracker. He received a B.S. degree in accounting from the University of Connecticut and an M.S. in Taxation from Georgetown University.

Bloomberg BNA

Bloomberg BNA's integrated tax research solutions provide a unique combination of the in-depth expertise of the Tax Management Portfolios™, primary sources, practice tools, and updated news—enabling tax professionals to provide exceptional guidance.

Q How is technology changing the playing field when it comes to business development?

A Business development is dependent on adapting to rapidly changing electronic technology, such as mandatory electronic filing of returns. Also, clients now expect faster email responses to inquiries, and alerts to developments that may impact them. A firm can always improve its website and social media usage to better promote its practice.

Q How can firms differentiate themselves from top competitors when it comes to business development?

A To rise to the top, firms need to move beyond assisting clients with an immediate crisis by offering services or solutions that anticipate unforeseen audit exposure. For example, firms can offer to review a client's state tax activities to assess whether they are properly filing returns in states in which they have exposure.

Bloomberg BNA offers tools to enable firms to evaluate their clients' state nexus exposure, i.e., the threshold of contact that must exist before the state has jurisdiction to tax the taxpayer. The Bloomberg BNA State Tax Nexus Tools allow firms to quickly gauge the state tax nexus implication of hundreds of specific activities, such as owning property, maintaining inventory, or using third-party vendors. It also includes insights on emerging issues such as cloud computing.

The tool generates detailed questionnaires that can be filled out by the firm or by the client's staff. After completing the questionnaire, the firm can import it back into the tool and produce a client-ready, customizable report that compares a client's activities to what the states view as nexus-creating contacts.

Delivering reports such as these will distinguish a firm and build strong client relationships.

Q What are some of the best ways to give emerging talent exposure to leadership decision-making?

A Staff represent the future leadership of a firm. Exposure to leadership decision-making is beneficial. This can be cultivated through clear and direct communication and interaction with leadership by serving on a firm's advisory committee or practice team.

Q What are some of the most critical elements of due diligence when buying or selling an accounting firm?

A In addition to reviewing historical financial results, other significant elements that need to be considered include the nature of the practice; quality of the staff; potential malpractice issues; ability to enhance and expand services to clients; the loyalty and transferability of clients; and the overall risk profile of the client base.

Ask the Expert ADVERTISING SUPPLEMENT

Michael Giardina

President/CEO
Office Tools

Michael Giardina is the designer and architect of Office Tools' practice management software, Workspace™. He has owned a tax practice, worked for multiple firms, and consulted to over 500 firms. He routinely speaks at accounting and tax conferences and webinars on the benefits of technology and firm management. He received his degree in business from Metropolitan State University of Denver.

OfficeTools

Office Tools, which provides practice management software, educational conferences, and the *My Office Today* magazine, has been serving the accounting industry for nearly 20 years. Office Tools serves nearly 2,000 firms with 30 staff members in its Palmdale, Calif., offices.

Q Are there technology categories or trends that have the potential to be disruptive or transformational for accounting?

A The greatest transformation trend is information management. Integrated systems and processes tied together by practice management software provide more cohesive information. These systems allow us to take current, relevant information and apply it immediately as corrective measures to problems. This has transformed the way decision-making happens.

Immediate and more relevant information accelerates everything from management decisions, staffing corrections, and the speed at which we serve our clients. While practice management software used to be defined as "just a time-billing system," we are seeing it take on its intended role—be the core information system to a firm's infrastructure, serving firm, staff, work flow, and client. If this is done well, firms will experience a transformation.

Q What's the most promising technological trend you see unfolding at firms or in businesses' finance units right now?

A The most promising trend is in the area of work flow systems. Their effectiveness is having a dramatic effect on firms' finances. When implementing work flow software, firms are introducing new automations to firm processes that reduce firm cost centers. We are seeing up to one hour of time saved per day per staff. This kind of savings is hard to ignore, even for firms that are late adopters. Not only are the cost centers being reduced, but we are seeing higher billings and less staff stress. Work flow systems provide on-screen markup and tracking of tax information, due date systems for tracking, and assignment staffing systems.

Q What role can technology play in readying a firm or business for succession?

A Implementing new technology improves infrastructure and raises a firm's selling price. Owners constantly think about the end game—succession. They look for ways to build something that is great that will provide retirement income. Without great infrastructure, a firm's selling price will be lower.

Poor infrastructure creates a series of failures that adversely affect a transition and raise costs to the purchaser, which negotiates a lower selling price. Purchasers' concerns will range from the costs of newer systems, additional training, and possible loss of clients due to a poor transition. While neither party wants this situation to affect an agreement, the seller being paid on future revenues could risk a loss of clients. Succession can be smooth if technology is implemented, because it creates greater historical client data; creates higher billings due to time saved; and creates a franchise-type infrastructure, which reduces transitional staff training.

Q What are some strategies for bridging the different generations now in the workplace?

A I believe firms can bridge the gap between generations with very little effort. It starts by implementing new technologies that satisfy the younger workers. Next is finding ways to include younger team members in decision-making. Next, firms need to develop a mentoring environment where younger professionals provide training and assistance to older co-workers. This can effectively help bridge the gap through practical assistance and relationship building. Finally, firms need to find newer, better designed software that isn't so difficult to use so that older workers can adopt new processes and methods.

Expanding Your App-titude

A monthly look at mobile apps that can make the CPA's job and life better

by Greg LaFollette, CPA/CITP, CGMA

GETTING MORE GREEN WITH KABBAGE

Start with a business financed via old-fashioned "factoring." Next, stir in a healthy dollop of internet, a dash of software as a service (SaaS), and a cup of venture capital, and you've got Kabbage, one of the latest in a new genre of small business financing platforms.

Kabbage and its many look-alike competitors have a common product—financing for small business—delivered to diverse targets via differing business models. Kabbage first asks an applicant business for access to various financial platforms it might be using (eBay, QuickBooks Online, Xero, etc.). Kabbage then harvests real-time data, combines them with other more traditional demographic data and credit reports, and employs algorithms to make automated decisions. The result is a credit answer in as little as seven minutes.

Make no mistake, Kabbage is most probably a lender of near last resort, but the company definitely provides liquidity (up to $100,000) for some cash-starved small businesses. In lieu of interest, Kabbage charges a fee on the original loan amount only for the period that the loan is outstanding. All Kabbage loans have a six-month term, but there are no penalties for early payment. The fees range from 1% to 13.5% for the first two months, and 1% for each of the final four months.

The app gives a borrower instant access to capital as well as an up-to-the-minute snapshot of his or her account. Competitors in the space include BlueVine, Fundbox, Kickstarter, Lending Club, Prosper, QuarterSpot, and several others.

Website: kabbage.com **Cost: Varies**
Operating Systems: iOS, Android, Web

A NEW TYPE OF POLITICAL SPENDING: BUYPARTISAN

As CPAs, many of us support political action committees (PACs) at multiple levels—some are professionally oriented, some interest-oriented, and others philosophically oriented. We use the power of groups to amplify our collective voices. But in addition to writing checks directly to individual PACs, there is another, more indirect method to "vote your pocketbook." Shop your ideals!

BuyPartisan uses smartphone technology to scan a barcode, look up the product, identify the company (and, if necessary, the parent of that company), and then immediately report to you how that company's PAC, individual employees, CEO, and board members support the major political parties. For example, I found it interesting that Microsoft's political support of $48 million is an order of magnitude larger than Apple's at $4.2 million. You can download the app yourself to compare which party got the most from whom. Snap a product's barcode, and you can see instantly if your end-consumer purchase is (indirectly) supporting your political ideals. The authors say the app is in "beta" as it currently supports only the *Fortune* 250.

Website: spendconsciously.com **Cost: Free**
Operating Systems: iOS, Android

ONLINE FOOD-ORDERING SERVICES THRIVE WITH SEAMLESS-GRUBHUB MERGER

Former online food-ordering competitors Seamless and GrubHub merged in 2013. Both employ web-app-enabled platforms to connect diners with takeout restaurants in nearly 1,000 U.S. cities. The apps (which are still separate platforms) present a sortable and filterable list of available delivery options based on time of day and the diner's geo-location. Once an option is selected, that restaurant's entire delivery menu is displayed, and the user simply selects the items desired. The transaction amount is calculated; tax and delivery charge, if any, are added; a tip option is provided; and the order amount is billed to your credit card. The order is passed to the restaurant, and the platform confirms the order to the diner with an expected delivery time. The platform provider takes a percentage from the restaurant side so there is no direct cost to the diner.

As expected, apps in the "sharing economy" genre use reviews extensively to assist diners in curating the hundreds of choices available in larger metropolitan areas. If you occasionally order in during busy season, Seamless and GrubHub will be a godsend. If you have restaurant clients, be sure to watch these apps carefully as the prepared food delivery market is growing rapidly. GrubHub alone has more than 4.5 million unique customers and serves more than 175,000 meals daily, and one of the hottest topics among restaurant operators is how to prepare entrees that travel well.

Websites: grubhub.com, seamless.com
Operating systems: iOS, Android, Web
Cost: Free to customers; restaurants pay percentage of each sale

Greg LaFollette (greg.lafollette@hq.cpa.com) is a strategic adviser with CPA.com, the commercial subsidiary of the AICPA.

FOSTERING COLLABORATIVE SUCCESS

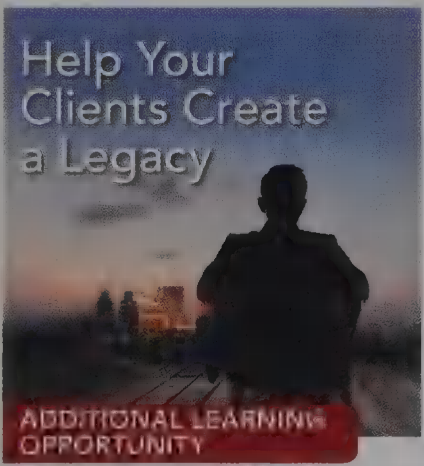
June 15–17
Gaylord National Resort & Convention Center
Greater Washington, DC

NOT-FOR-PROFIT Industry Conference

Recommended CPE Credit: 20

The 2015 AICPA Not-for-Profit Industry Conference brings together the industry's top experts and thought leaders to offer their perspectives on the most-crucial issues facing not-for-profits and those who serve them. Learn how to deal with new regulatory and existing issues affecting tax, compliance, accounting & auditing and governance. Join your peers for Ask the Experts panels, in-depth workshops and targeted Yellow Book sessions.

Learn More or Register at cpa2biz.com/NOT ▪ Follow Us at #AICPAnfp



Private Foundation Summit MAY 17

Conference on Tax Strategies for the High-Income Individual

May 18–19 ▪ ARIA Resort & Casino, Las Vegas, NV

Recommended CPE Credit: 19

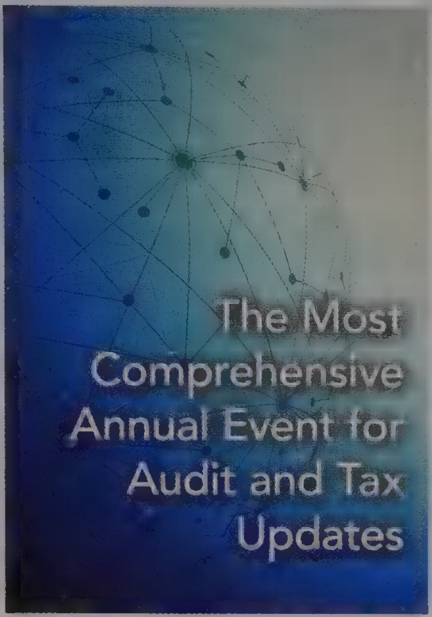
Join us for back-to-back events focused on individual and family legacies. Renowned experts will weave the various challenges and goals faced by affluent clients and reveal how you can deliver integrated, proactive advice. In addition, the full-day Private Foundation Summit will feature thought leaders in philanthropy.

Learn More or Register at cpa2biz.com/taxstrat ▪ Follow Us at #AICPAtaxst

Attend Conferences On-Site or Online

Select the method that best suits your needs. The online conference gives you access to all of the same content as the on-site conference — in real time!

AICPA® Store 2015 Conference Planner



Employee Benefit Plans Conference

May 18–20
Gaylord National Resort & Convention Center
Greater Washington, DC

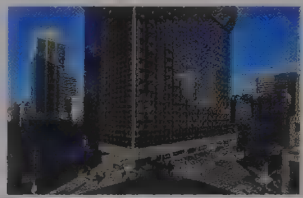
Recommended CPE Credit: 23

In the AICPA's signature learning environment, you'll find everything you need for this year's audit, administration and Form 5500 filing season during this conference. With speakers from government agencies, content developed by leading experts and numerous networking opportunities, this event is your chance to plug into the best in the employee benefit plans community. You'll learn how to unravel the implications of the latest regulations, multiply your professional skill set and integrate critical know-how into your workplace.

Learn More or Register at cpa2biz.com/EBP • Follow Us at #AICPAebp

---

CFO Conference



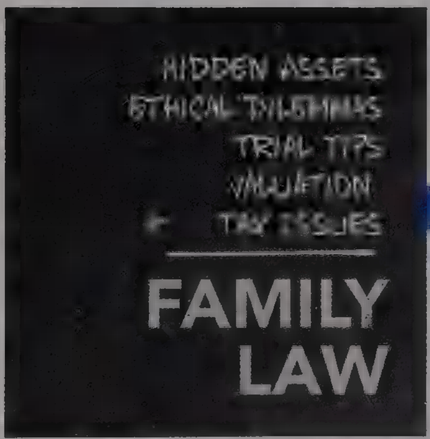
May 13–15 ▪ Denver Marriott City Center, Denver, CO

Recommended CPE Credit: 20

The AICPA 2015 CFO Conference will help you and your organization define a clear path to success. Seasoned CFOs from across the country will present sessions they created and developed to provide the latest updates, innovations and anticipated trends to keep you on the cutting edge.

Learn More or Register at cpa2biz.com/CFO • Follow Us at #AICPAcfo

---



Family Law Conference

May 13–15 ▪ MGM Grand, Las Vegas, NV

Recommended CPE Credit: 18.5

For CPAs with fewer than 10 years of experience

Gain expertise on a broad range of current family law issues while expanding your skills in business valuation, tax and financial forensics. Industry experts provide cutting-edge insights into family law issues and the technical know-how you need to gain a competitive advantage in this growing area.

Learn More or Register at cpa2biz.com/fmlaw ▪ Follow Us at #AICPAfmlaw

---

Exhibit and Sponsorship Opportunities

Don't miss the opportunity to present and sell your organization's services and products to thousands of CPAs and financial professionals at AICPA conferences. For detailed information on conference exhibit and sponsorship opportunities, contact AICPA Exhibit Sales at **amorris@morrismarketing.com** or **800.504.4749**.

16863-CAP

Learn About All AICPA Conferences at **cpa2biz.com/conferences** • 888.777.7077

Technology Q&A

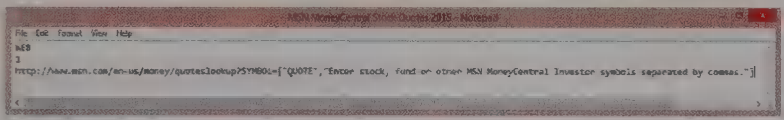
by J. Carlton Collins, CPA

MY FAVORITE QUOTES

Q In the April 2011 *JofA* ("A Refreshing Change in Your Portfolio," page 57), you described how to set up a stock portfolio using MSN MoneyCentral investor stock quotes. Following your advice, I set up a large portfolio using this procedure, which has served me very well. However, in December 2014 the portfolio update function stopped working; is there a solution to get the stock quote updates working again?

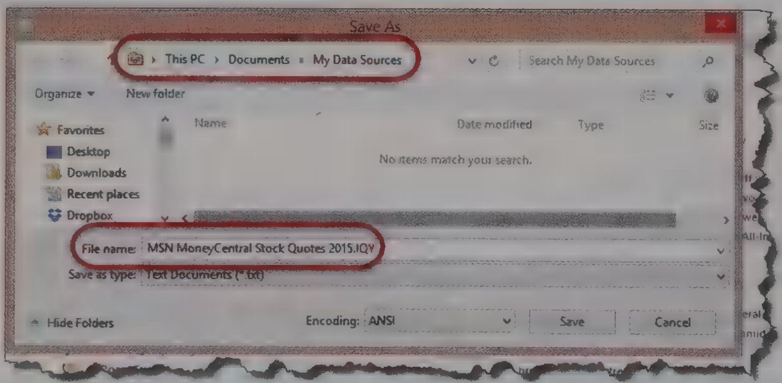
A Several CPAs have written about this same problem. It appeared that in late 2014, Microsoft discontinued my favorite stock price quote tool—the MSN MoneyCentral Stock Query. However, as of February 2015, this stock quote query functionality can be restored by creating a new query, as follows.

1. Launch Microsoft Notepad by selecting **Start**, **Programs** (or **All Programs**), **Windows Accessories** (or **Accessories**), **Notepad**. Enter the following information exactly as pictured below (the required text is repeated below the image):

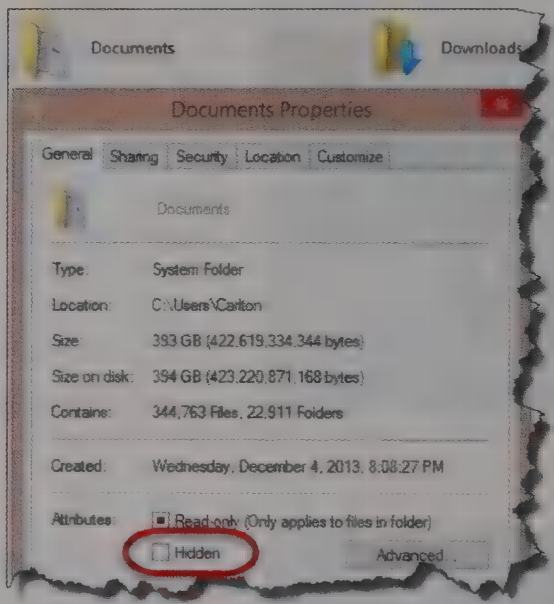


   WEB
   1
   http://www.msn.com/en-us/money/quoteslookup?SYMBOL=["QUOTE","Enter stock, fund or other MSN MoneyCentral Investor symbols separated by commas."]

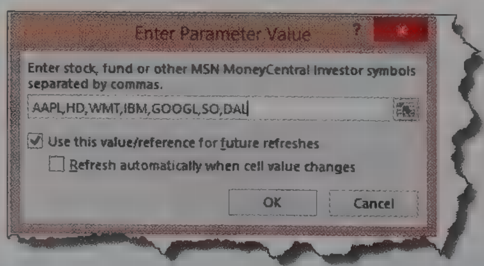
2. Save the Notepad file as MSN MoneyCentral Stock Quotes 2015.IQY into the **My Data Sources** folder as pictured below.



Note: The **My Data Sources** folder is in your **Documents** (or **My Documents**) folder, which may be hidden by default. If necessary, you can unhide your **My Data Sources** folder as follows: Launch **File Explorer**, navigate to the **Documents** folder icon, right-click the **Documents** (or **My Documents**) folder icon, select **Properties**, and on the **General** tab, uncheck the box labeled **Hidden**, as circled below.



3. To use this new query tool, from Excel's **Data** tab, select **Get External Data**, **Existing Connections**, and then scroll to and launch the new stock price query tool you just created labeled **MSN MoneyCentral Stock Quotes 2015**. In the resulting **Import Data** dialog box, click **OK**. In the resulting **Enter Parameter Value** dialog box, as pictured below, enter the stock tickers you want to query (separated by commas with no spaces after the commas) in the **Enter stock, fund or other MSN MoneyCentral Investor symbols separated**



by commas text box, check the box labeled **Use this value/ reference for future refreshes**, and then click **OK**.

4. This action will return current stock price and related information for each stock ticker symbol you entered in step 3.

Stock Quotes Provided by MSN Money
Click here to visit MSN Money

			Last	Close	High	Low	Volume	Change	% Change	52 Wk High	52 Wk Low	Market Cap
Apple Inc	Chart	News	125.87	126.43	127.28	125.65	33,353,497	-0.56	44.00%	127.48	73.0471	736,597,832,080
Home Depot Inc	Chart	News	111.54	112.16	112.39	111.3	2,881,742	-0.63	-56.00%	112.39	74.61	147,607,515,576
Wal-Mart Stores Inc	Chart	News	85.91	85.86	86.16	85.32	3,151,442	0.05	6.00%	90.97	72.61	276,839,780,061
International Business Machines Corp	Chart	News	160.42	158.46	160.8	158.64	2,245,263	1.96	124.00%	199.21	149.52	156,880,978,021
Google Inc	Chart	News	549.43	545.95	552.54	546.6	1,157,519	3.48	64.00%	615.04	421.9	371,626,846,199
Southern Co	Chart	News	45.77	46.55	46.54	45.54	5,808,649	-0.78	-168.00%	53.16	41.5	41,896,280,050
Delta Air Lines Inc	Chart	News	44.24	44.81	44.4	43.35	12,302,043	-0.57	-127.00%	51.06	30.12	36,935,613,219

Thereafter, these query results will refresh instantly whenever you press the **Data** tab's **Refresh** button. Of course, your resulting queried stock quotes could then be referenced to an Excel-based portfolio, an example of which is pictured below. This example can be downloaded at carltoncollins.com/port.xlsx.

Carlton's Example Stock Portfolio
3/4/15 9:18

Name of Stock	[illegible]	[illegible]	[illegible]	Total
Microsoft	MSFT	10,000	$ 43.28	432,800
Google (Preferred Shares)	GOOGL	750	$578.80	434,100
Coke	KO	4,500	$ 42.95	193,275
Southern Company	SO	2,300	$ 45.15	103,845
Exxon	XOM	1,150	$ 87.62	100,763
IBM	IBM	2,600	$161.03	418,678
British Petroleum	BP	7,200	$ 41.76	300,672
GoPro	GPRO	6,500	$ 40.30	261,950
Gold (ETF)	GLD	3,000	$115.47	346,410
Apple	AAPL	500	$129.38	64,690
Home Depot	HD	3,750	$116.07	435,263
Wal-Mart	WMT	2,500	$ 83.37	208,425
Amazon	AMZN	2,000	$384.61	769,220
Delta Air Lines	DAL	9,500	$ 45.78	434,910
				4,505,001

Portfolio | Query

DELVE INTO THIS

Q Over the years, we've accumulated a large number of data files spread across our many Microsoft-based computers, servers, cloud storage, and mobile devices. Are there any tools that we can use to help us more effectively organize and manage this voluminous data?

A In years past, file management usually meant moving your files to various folders, but if your files are all contained on Microsoft-based platforms, then moving your files around may no longer be necessary. In January, Microsoft launched a new business intelligence tool called Office Delve, which is included in some Office 365 plans. Delve uses a machine learning tool (called Microsoft Office Graph) to map relationships between people, conversations, calendars, emails, email attachments, SharePoint Online files, OneDrive for Business files, mobile device files, pictures, and videos, all in an effort to automatically organize your data. This means you can leave the data on your Windows computers, Windows networks, OneDrive, and SharePoint drive right where they are, and still improve their "findability." (The initial release of Delve does not yet connect to external non-Microsoft-based cloud drives such as Dropbox or Google Drive, but connectors are available for those vendors to create such connections to Delve.)

For example, suppose your company is preparing to audit the (fictional) Addison Factory. Delve enables you to create a **Group**, which in turn generates a user portal that includes an ongoing conversation feed (using Yammer technology), calendar, document library, inbox, related data files, to-do tasks, and internal and external communications, an example of which is pictured below.

In a way similar to how Facebook analyzes your friends, high school, and groups to identify additional relevant friends (so you don't have to search so hard for them), Delve analyzes your connections and data to pull together relevant people, files, emails, tasks, slides, PDFs, videos, etc. (so you don't have to search so hard for them either). In essence, Delve integrates related content all in one place, thereby reducing or eliminating the need to search across locations and applications to find the most current relevant content. Delve can also perform the following functions:

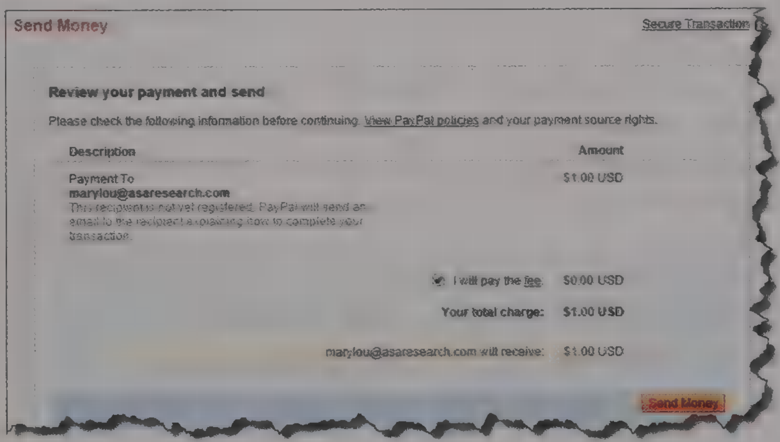
- New enhancements to PowerPoint and Outlook's compose view can automatically display contextual information alongside an email as it is written.
- Delve can automatically move "graymail" from your Outlook inbox to a clutter box (not junk mail, but less important email such as that newsletter you signed up for but seldom read).
- Delve can help prepare you for upcoming meetings (scheduled in your calendar) by pulling the latest related information together to produce content or prep cards (similar to notecards you might use to deliver a presentation).
- Delve offers Cortana-like capabilities (Microsoft Cortana is an artificial intelligence interface that responds to voice, similar to Apple's Siri and Google Now) that allow you to search and manage your emails, meetings, contacts, and social networks using voice questions and commands.
- When Delve is used with Docurated (a third-party program that can automatically break data files down into objects and organize that information for marketing purposes), thumbnail views of your data are displayed.

Note: Delve is available to customers with Office 365 Business Essentials and Business Premium plans, and Office 365 Enterprise, Education, and Government E1–E4 plans.

SEND CASH SO I'LL KNOW YOU ARE OK

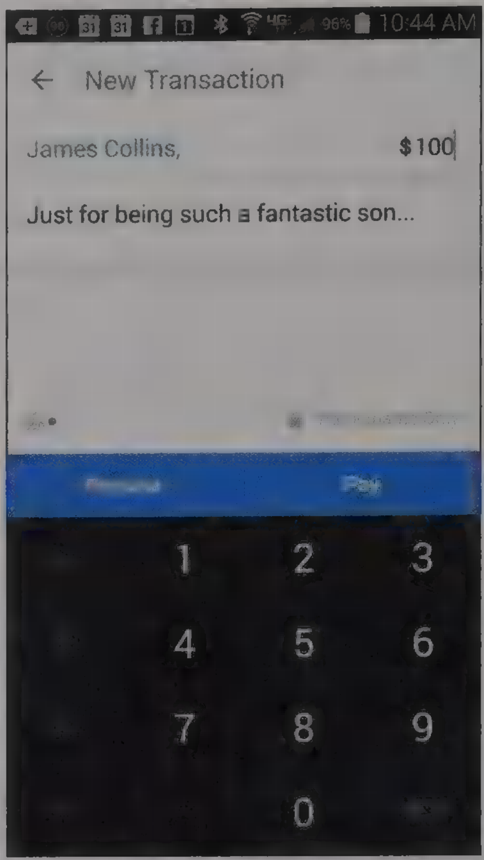
Q Is there an electronic payment solution for reimbursing friends or giving money to my children so I don't have to carry as much cash, and also so I can track my personal transactions?

A PayPal's website provides the ability to send funds to friends and family for free, directly from your PayPal account to your recipient's email address or smartphone number. To use this service, visit paypal.com, click the **Send** option at the top of the screen, enter your recipient's email address or phone number, enter the amount you want to transfer, and then click **Continue**. On the next screens, click the **Friends or family** button, log in to your PayPal account (if you have not already done so), and then click the **Send Money** button to complete the transfer. The recipient will need to respond to the email or message directing him or her to either log in to or create a PayPal account to receive the transferred funds.



You might also try PayPal's Venmo app, which allows you to share money with others for free without involving PayPal accounts. Venmo links to your bank account or debit card and enables you to use your smartphone to instantly pass money to your friends using Venmo to split a dinner bill, send a birthday gift, or reimburse a friend. There is no fee involved, and Venmo keeps a record of all of your transactions, including your transaction description. (As an additional option, both methods mentioned above allow you to transfer funds from your credit card accounts for a 3% transaction processing fee.)

To set up Venmo (using the Facebook setup option), download the app and click the **Use your Facebook info** button to identify your Facebook friends who have Venmo accounts (or, as options, you can search for Venmo users within your Twitter followers or enter the email address for each Venmo user with whom you want to exchange funds). Continue the setup process by entering a desired username, email address, and password to create your account. From the main screen, select **Banks & Cards** and enter your bank account information or a debit (or credit) card number, including the card's expiration date, security code, and ZIP code. To make a payment, click the **New Transaction**



button in the upper-right corner (the icon of a pencil and a plus sign), select a payment recipient (from your list of friends with Venmo accounts), enter the amount and a transaction description, select your desired privacy setting, click **Pay**, as pictured above, and then click the **Confirm payment** button. On the following screen, select the bank account or debit (or credit) card you want to use and select the **Yes, make this my funding source** button to complete the transaction. The recipient's Venmo account will hold on to the funds until he or she selects the **Cash Out** button, at which time the funds are transferred to the recipient's linked bank account. ***Note:*** A Venmo receivables transaction can also be set up to request money, such as a reimbursement of utility expenses from a roommate.

How safe is Venmo? Venmo claims that it uses financial-institution-grade security and data encryption to guard against unauthorized transactions and to protect your personal and financial information. If your smartphone is lost or stolen, you can revoke your Venmo account online to prevent further use. Venmo says this solution is intended for payments between friends and people who trust each other, and the company advises you to avoid making payments to people you don't know. Still, if you do decide to use Venmo, it may be a good idea to link your Venmo account to a bank account that carries a minimal balance.

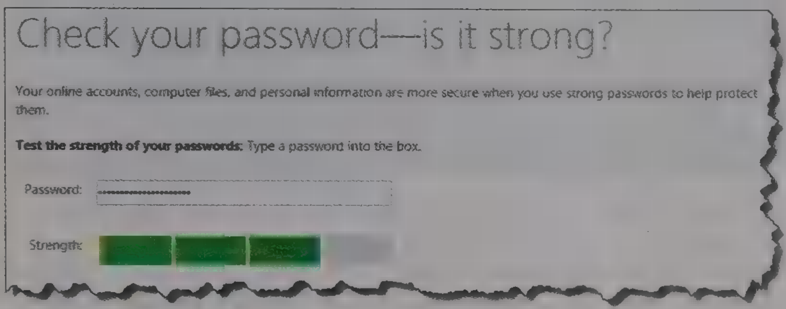
Warning: By default, the payments you make through Venmo are viewable by other Venmo users. (Upon creating my initial Venmo account, I was shocked to see the intimate details of the Venmo transactions made by my friends and family

members.) To make your Venmo payments private, be sure to uncheck the **Share Note on Facebook** and **Share Note on Twitter** boxes when creating the transaction, and/or adjust the privacy settings from the privacy dropdown menu by selecting **Participants Only**.

UNFORGETTABLE PASSWORDS

Q What are the minimum criteria for creating a strong password?

A Microsoft provides a Password Checker website at tinyurl.com/d7e2hoj, where you can enter the password to check its strength, an example of which is pictured below.



To achieve the maximum strength, Microsoft's password checker requires at least 14 characters containing at least one of each of the following types of characters: an uppercase letter, a lowercase letter, a number, and a special character. As added security, most experts also recommend that passwords not contain your username, real name, company name, or complete words; that each password be unique; and that all passwords be significantly different from previous passwords.

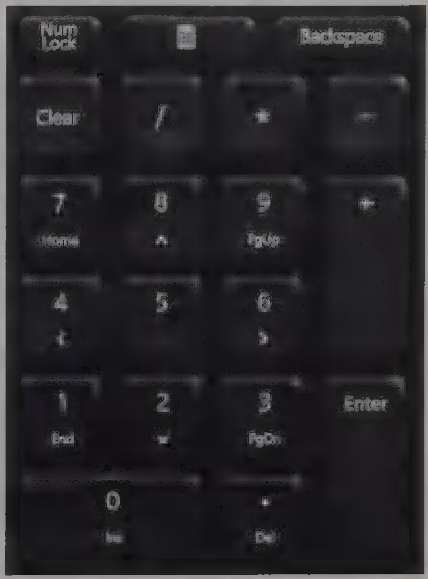
Because the above rules result in a bevy of passwords that are difficult to remember, I use a different approach that you may want to consider. All of my passwords start with the same lengthy prefix, such as a childhood telephone number, for example, 9126364242 (this is not the actual prefix I use). Next, my passwords all include the name of the account, such as Delta, Amazon, or AICPA. Finally, each of my passwords ends with a four-digit personal identification number (PIN). The results are strong lengthy passwords that I have a good chance of remembering, such as the examples shown below (which are not my actual passwords):

Delta account password:	9126364242delta7543
Amazon account password:	9126364242amazon9312
AICPA account password:	9126364242aicpa2209

Using this approach, the red PINs are all I need to remember, and because hackers don't know the actual lengthy prefix I use, these passwords are very strong. With 263 active passwords on my list, this structured approach gives me a fighting chance of remembering many of them. Because uppercase and special characters are more difficult characters to type (especially on a smartphone device), I avoid these types of characters unless they are required.

CARLTON'S PONDERING

Why is it that as CPAs we mastered the 10-key calculator with number pads numbered from the bottom up, but our smartphones display number pads numbered from the top down? Shouldn't there be an option to let us choose the number pad layout on our smartphones? (Examples of typical keyboard and smartphone number pads with opposing layouts are pictured at right.)



EXCEL READER CHALLENGE WINNER

Congratulations to Amir Melamed for submitting the best solution to the August 2014 Reader Challenge. Like many other readers, Melamed used the Excel Solver approach, but his solution bettered them all to derive a maximum portfolio value of $70,184. You can see a recap of the solutions submitted at carltoncollins.com/trades.html. ❖

J. Carlton Collins (carlton@asaresearch.com) is a technology consultant, a CPE instructor, and a JofA contributing editor.

Note: Instructions for Microsoft Office in "Technology Q&A" refer to the 2013, 2010, and 2007 versions, unless otherwise specified.

Submit a question

Do you have technology questions for this column? Or, after reading an answer, do you have a better solution? Send them to jofatech@aicpa.org. We regret being unable to individually answer all submitted questions.

Inside AICPA

GOODMAN EARNS AWARD FOR PFP SERVICE

Michael Goodman, CPA/PFS, founder of Wealthstream Advisors Inc., received the 2014 Personal Financial Planning Distinguished Service Award.

The award is given annually to a member whose volunteer efforts have made significant contributions to growth and advancement in the area of personal financial planning.

An active member of the AICPA for more than nine years, Goodman has served on the Institute's PFP Executive Committee, Investments Committee, Financial Literacy Commission, and the PFP Conference Committee. As chair of the PFP Conference Committee from 2009 to 2012 and an active member of the committee since 2006, he helped to advance the conference by enhancing the agenda and attracting top industry speakers. He also assists the AICPA in the development of the profession's future as a member of the PFP Executive Committee Next Generation Task Force.

Michael Goodman

Michael Maher, second from right, receives the Lifetime Contribution Award from Ken Witt, AICPA technical manager. Also on hand are Theresa Libby, left, of the Lifetime Contribution Committee, and Naomi Soderstrom, the chair of the AAA Management Accounting Section.

RESEARCHERS RECOGNIZED FOR WORK IN MANAGEMENT ACCOUNTING

Scott B. Jackson, professor at the University of South Carolina; Timothy M. Keune, assistant professor at the University of Dayton, Ohio; and Leigh Salzsieder, assistant professor at the University of Missouri–Kansas City, received the Greatest Potential Impact on Management Accounting Practice Award for their research into bias that affects investment decisions, and its implications for global business.

Their paper, "Debt, Equity, and Capital Investment," shows that debt financing might push managers away from investing in projects that increase business value, providing evidence about the effect of an organization's capital structure on key internal decisions.

The award, sponsored by the AICPA and Chartered Institute of Management Accountants (CIMA) under the banner of the Chartered Global Management Accountant designation, recognizes academic research considered most likely to have a significant impact on management accounting and includes a $2,000 stipend.

Eligible papers must have been published within the previous five years and submitted by the authors or nominated by peers.

MAHER RECEIVES LIFETIME CONTRIBUTION AWARD FOR TEACHING, RESEARCH, AND PRACTICE

Michael Maher, professor at the University of California, Davis, Graduate School of Management, received the 2015 Lifetime Contribution Award from the AICPA and the Management Accounting Section of the American Accounting Association.

The award recognizes individuals who have made an important mark on management accounting education, research, and practice.

Maher focuses on the efficiency of recent developments in management accounting, including activity-based costing, benchmarking, and theory constraints. He develops profiles on companies and managers that commit corporate misconduct, and studies and lectures on corporate ethics and the responsibilities of business and auditors to stakeholders.

Maher also has authored or contributed to numerous publications and teaches courses on management accounting and on performance management and motivation.

INAUGURAL SCHOLARSHIP BENEFITS ACCOUNTING STUDENTS TRANSFERRING FROM TWO- TO FOUR-YEAR SCHOOLS

The Institute has awarded its inaugural Two-Year Transfer Scholarship to five students who have earned associate's degrees in business, accounting, finance, or economics with a declared intent to major in accounting at a four-year college or university.

The awards, funded by the AICPA Foundation, include

$1,000 to use toward tuition for the 2014–2015 school year.

The recipients are:

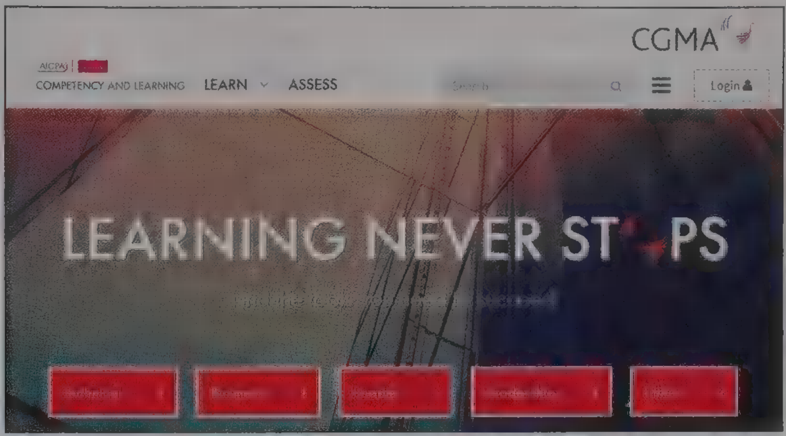
- Lisa Dimery, University of Colorado–Denver
- Kaitlyn Fox, University of Alabama at Birmingham
- Gabriel Rollano, University of South Florida
- Simon Valdez, University of Texas at San Antonio
- Matthew Warr, University of Wyoming

These students also will become part of the AICPA Legacy Scholars program, which helps scholarship winners develop soft skills needed to maintain a successful career through service. Each AICPA Legacy Scholar is assigned a coach to provide guidance on an accounting-related service project and to advise on questions related to the profession and the work environment.

NEW SITE OFFERS CGMA DESIGNATION HOLDERS FLEXIBLE ACCESS TO PROFESSIONAL LEARNING AND DEVELOPMENT

The AICPA and CIMA launched the AICPA | CIMA Competency and Learning website to help equip Chartered Global Management Accountant (CGMA) designation holders with the competencies required to maintain and improve their employability in today's business environment.

The site, located at competency.aicpa.org, is based on the



CGMA Competency Framework, which was created in consultation with employers across the world to define the most needed technical, business, people, and leadership skills.

It features more than 1,500 articles, publications, videos, webcasts, and self-study courses to support lifelong learning for CGMA designation holders, who can also use the site's self-assessment tool to identify gaps in their learning and develop their competence from foundational levels to expert.

Flexible access to learning resources allows users to discover and develop new competencies when, where, and how they want. CGMA designation holders can also track and report progress toward their personal, professional, and regulatory goals. ❖

Member Service Center

1-888-777-7077

Monday–Friday 9 a.m.–6 p.m. ET
220 Leigh Farm Road · Durham, NC 27707
Fax: 1-800-362-5066 · service@aicpa.org · www.aicpa.org

Audit [redacted] Accounting Technical Information Hotline

1-877-242-7212

Monday–Friday 9 a.m.–8 p.m. ET

AICPA Contact Information

AICPA Logo 888–777–7077
CPA Logo 888–777–7077
Third-party logo requests 212–596–6107
AICPA Foundation 919–402–4534
AICPA Political Action Committee (AICPA PAC) 202–434–9276
Academic & Career Development
  Student Recruitment Programs and Products 919–402–4036
  Recruiting Materials for the Profession 919–402–4036
  CPE 888–777–7077
Accounting and Auditing Publications 919–402–4811
Accounting Standards (www.aicpa.org/FRF-SMEs) 212–596–6167
Advertising–Display and Classified (*Journal of Accountancy, The Tax Adviser*) 800–873–1677
Audit & Accounting Technical Information Hotline 877–242–7212
  Monday–Friday 9 a.m.–8 p.m. ET
Audit Committee Effectiveness Center . . . . . ACMS@aicpa.org
Audit Quality Centers:
  Center for Audit Quality (www.thecaq.org) 888–817–3277
  Employee Benefit Plan (www.aicpa.org/ebpaqc) 202–434–9253
  Governmental (www.aicpa.org/gaqc) 202–434–9259
Auditing Standards 212–596–6032
Benevolent Fund 866–527–2228
Business, Industry & Government Member Inquiries 919–402–4816
  . . . . . busindgov@aicpa.org
Career Center/Job Board . . . . . customerservice@jobcontrolcenter.com
  888–491–8833
Center for Plain English Accounting (www.aicpa.org/CPEA) . . 800–CPA–FIRM
Committee Appointments 212–596–6097
  (volunteerservices@aicpa.org and http://volunteers.aicpa.org)
Committee Reimbursements . . . . . volunteerreimbursement@aicpa.org
Communications 212–596–6117
Compilation and Review Engagements 212–596–6250
Copyright Permissions (www.copyright.com) 978–750–8400
CPA Client Bulletin, CPA Client Tax Letter 919–402–4060
CPA Letter Daily (editorial) (www.aicpa.org) 919–402–2112
CPE (www.cpa2biz.com/cpe) 888–777–7077
  AICPA Learning Center www.cpa2biz.com/learning
Diversity & Inclusion 919–402–4912
Examinations (Uniform CPA Exam) . . . . . www.cpa-exam.org
Federal Legislation (nontax congressional matters) 202–434–9206
Federal Regulatory Matters (nontax-related) 202–434–9253
Financial Literacy Campaign . . . . . www.aicpa.org/financialliteracy
  (financialliteracy@aicpa.org)
  . . . . . www.360taxes.org
Fraud Resource Center . . . . . www.aicpa.org/fraudcenter
General Counsel (mbuddendeck@aicpa.org) 919–402–4925
IFRS Certificate Program . . . . . www.ifrs.com/certificate
International Financial Reporting Standards (www.ifrs.com) . . 877–242–7212
International Affairs 212–596–6048
Joint Trial Board (ckane@aicpa.org) 212–596–6101
Journal of Accountancy (editorial) 919–402–4449
  (www.journalofaccountancy.com)
Library (University of Mississippi) 866–806–2133
  (www.libraries.olemiss.edu/uml/aicpa-library)
Media Relations 212–596–6119
Member Specializations and Credentialing 888–777–7077
  Accredited in Business Valuation credential . . . . . abv@aicpa.org
  Certified in Financial Forensics credential . . . . . cff@aicpa.org
  Certified Information Technology Professional credential . . citp@aicpa.org
  Chartered Global Management Accountant . . . . . www.cgma.org
  Forensic Accounting Educational Certificate . . www.cpa2biz.com/forensic
  Forensic & Valuation Services . . . . . fvs@aicpa.org
  Information Management and Technology Assurance . . . imtainfo@aicpa.org
  Personal Financial Planning Services . . . . . pfp@aicpa.org
  Personal Financial Specialist credential . . . . . pfs@aicpa.org
  XBRL U.S. GAAP Certificate www.cpa2biz.com/XBRLcertificate
PCPS—member section for local, regional firms 800–CPA–FIRM
  (Small firm issues) 212–596–6039
Peer Review 919–402–4502
Practicing CPA, The (editorial) 800–CPA–FIRM
Professional Ethics, Ethics Hotline 888–777–7077
  Behavioral or Independence Issues 888–777–7077
  Technical Standards Subcommittee Matters 888–777–7077
Specialized Publications 919–402–4559
State Legislation 202–434–9230
Tax Adviser, The (editorial) 919–402–4052
Tax Section Member Services 800–513–3037
Work/Life and Women's Initiatives 919–402–4597

Trusted Business Advisor Solutions (available through CPA.com)

Accounting and Financial Management Applications (Intacct) . . . . . www.cpa.com/intacct
CPA.com Email Solutions . . . . . www.cpa.com/email
CPA.com Professional Services 855–855–5CPA
Firm-Wide Workflow Automation (XCM Solutions) . . . . . www.cpa.com/workflow
Paperless Bill Management (Bill.com) . . . . . www.cpa.com/bill
Payroll, HR and Employee Benefits
  (Paychex)(www.cpa.com/Paychex) 877–264–2615
Secure Online Audit Confirmations
  (Confirmation.com) . . . . . www.cpa.com/confirmations

AICPA [redacted] Program. . . www.aicpa.org/discounts

Insurance Programs
  Automobile 866–922–4272
  Catastrophe Major Medical 888–294–0028
  Commercial Property & Liability 866–283–7127
  Disability 800–223–7473
  Employment Practices Liability 800–221–3023
  Group Life for Firms 800–223–7473
  Group Variable Universal Life 800–223–7473
  Home 866–922–4272
  Life (Member/Spouse) 800–223–7473
  Long-Term Care 800–223–7473
  Medicare Supplement Plan 800–247–1771
  Personal Liability Umbrella 800–223–7473
  Professional Liability, CPA EmployerGard 800–221–3023
AICPA Certificate Frames (Church Hill Classics) 800–477–9005
AICPA Checking (Bank of America) . . . . . www.aicpa.org/checking
AICPA Credit Cards (Bank of America) . . . . . www.aicpa.org/creditcards
AICPA Firm-Based Retirement Program 877–264–2615
Audio & Web Conferencing (InterCall) 800–636–2377
Auto Purchase & Lease (Mercedes-Benz) . . . . . www.aicpa.org/mercedes
Business Formation Services (BizFilings) 800–981–7183
Car Rentals (Hertz, CDP #12353) 800–654–2200
  (Dollar) . . . . . www.aicpa.org/dollar
  (Thrifty) . . . . . www.aicpa.org/thrifty
Computers (Dell) (Member ID CS1470722) 800–757–8442
  (Lenovo) . . . . . 800–426–7235, ext. 3371
Copiers (Xerox Corporation) (#0706109) . . . . . 800–275–9376, ext. 272
Credit Card Processing (Chase Paymentech) 888–213–8445
Home Mortgages and Equity Loans (Wells Fargo) 800–272–1210
Hotels (Starwood Hotels & Resorts Worldwide) 888–625–4988
  (Hyatt Hotels & Resorts Worldwide) 800–492–8804
Logo'd Apparel (Lands' End Business Outfitters) 800–864–2899
Office Supplies (Office Depot) . . . . . www.aicpa.org/officedepot
Shipping Services (FedEx) 800–550–5595
Staffing Services (Robert Half) . . . . . www.aicpa.org/roberthalf

AICPA® Member Discount Program

AICPA Member Savings

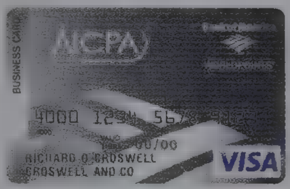
Products and services you use every day, personally and professionally*

*Programs and discounts subject to change.

INSURANCE & FINANCE

AICPA®

AICPA Insurance Programs
Personal Insurance: 1-800-223-7473
Business Insurance: 1-800-221-3023
AICPA Retirement Programs
1-877-264-2615



aicpa.org/creditcards
aicpa.org/checking
See website for rate, fee, and other cost information

WELLS FARGO HOME MORTGAGE
1-866-327-6414

TECHNOLOGY

lenovo
1-800-426-7235, ext. 3371

DELL
1-800-757-8442

hp
1-800-888-8299

InterCall®
1-800-636-2377

xerox
1-800-275-9376, ext. 272

BUSINESS SERVICES & FIRM SOLUTIONS

FedEx
1-800-550-5595

Office DEPOT
aicpa.org/officedepot

CHASE™ Paymentech
1-888-213-8445

Robert Half®
aicpa.org/roberthalf

BizFilings®
1-800-981-7183

BRANDED PRODUCTS

LANDS' END BUSINESS OUTFITTERS
1-800-864-2899

CUSTOM FRAMES for CPA Certificates by Church Hill Classics
1-800-477-9005

TRAVEL & LIFESTYLE

Hertz
aicpa.org/hertz

starwood Hotels and Resorts
aicpa.org/starwood

HYATT™
aicpa.org/hyatt

Thrifty Car Rental
aicpa.org/thrifty

DOLLAR RENT A CAR
aicpa.org/dollar

Mercedes-Benz
aicpa.org/mercedes

Learn more at **aicpa.org/discounts**

OFFICIAL RELEASES

ATTEST INTERPRETATION...ETHICS REVISED INTERPRETATIONS

ATTEST INTERPRETATION

[redacted] Section [redacted]

Agreed-Upon Procedures Engagements: Attest Engagements Interpretation of AT Section 201

1. Third-Party Due Diligence Services Related to Asset-Backed Securitizations: SEC Release No. 34-72936

.01 SEC Release No. 34-72936, *Nationally Recognized Statistical Rating Organizations* (the release[1]), acknowledges that certain procedures often performed by practitioners as agreed-upon procedures (AUP) engagements related to asset-backed securitizations (ABS) are considered third-party *due diligence services* (as defined in the release). These include due diligence services that relate to checking the accuracy of the information or data about the assets provided by the securitizer or originator of the assets. For example, comparing the information on a loan tape with the information contained on the hard-copy documents in a loan file is an activity that falls within the definition of due diligence services.

.02 For an AUP engagement performed that is considered "due diligence services" as defined in the release, the specified parties are typically only the issuer or the underwriter(s), or both.

.03 The release requires the following:

- The issuer or underwriter of any ABS to make publicly available the findings and conclusions of any third-party due diligence report obtained by the issuer or underwriter. The release further describes that the disclosure of the findings and conclusions includes disclosure of the criteria against which the loans were evaluated, and how the evaluated loans compared to those criteria, along with the basis for including any loans not meeting those criteria. This is accomplished by including such information in Form ABS-15G, "Asset-Backed Securitizer Report Pursuant to Section 15G of the Securities Exchange Act of 1934," which is required to be furnished by the issuer or underwriter to the SEC through the Electronic Data Gathering, Analysis, and Retrieval (EDGAR) system.
- Any third-party due diligence service provider to complete Form ABS Due Diligence-15E, "Certification of Provider of Third-Party Due Diligence Services for Asset-Backed Securities" (the prescribed form). The prescribed form elicits information about the due diligence performed, including a description of the work performed (Item 4 of the prescribed form) and a summary of findings and conclusions of the third party (Item 5 of the prescribed form).

.04 The release states the following:

> The Commission understands there may be particular considerations that would need to be taken into account under applicable professional standards that govern certain services provided by the accounting profession. The requirements and limitations resulting from relevant professional standards generally are described within the reports issued and, to the extent such requirements or limitations are based upon professional standards, the Commission would not object to the inclusion of the same description in the written certifications on [the prescribed form].

.05 The prescribed form is required to be signed by the due diligence provider. The prescribed form is also required to be provided to any nationally recognized statistical rating organization (NRSRO) that produces a credit rating for an ABS to which such due diligence services relate. The release describes that the due diligence provider will be deemed to have met this obligation by providing the prescribed form to the issuer, sponsor, or underwriter of the securitization that maintains the Rule 17g-5 website. The purpose of the Rule 17g-5 website is to make information related to ABS transactions accessible to all NRSROs. Additionally, the release requires the prescribed form to be provided to any NRSRO that specifically requests it.

.06 When the NRSRO produces a credit rating, the release requires that it publicly disclose each prescribed form that was posted to the Rule 17g-5 website. Such information is expected to be posted on the website of the specific NRSRO, not on the EDGAR system. The release indicates that the decision to allow the NRSRO to disclose the prescribed form in the manner previously described, instead of through the EDGAR system, was to limit additional cost that would be incurred from having the NRSRO submit the prescribed forms through the EDGAR system.

.07 In most instances, Form ABS-15G will be furnished through the EDGAR system either prior to or at the same time as the prescribed form is posted to the Rule 17g-5 website.

.08 Therefore, the procedures or findings, or both, of due diligence services (as defined in the release) conducted as AUP engagements are made public via Form ABS-15G through the EDGAR system or via the prescribed form through the process by which the NRSRO publishes its credit ratings, or both.

.09 *Question*—The release requires the public disclosure of the procedures or findings, or both, of the practitioner's due diligence services in the prescribed form and Form ABS-15G, as applicable. Is the distribution of such procedures or findings, or both, prohibited under AT section 201, *Agreed-Upon Procedures Engagements* (AICPA, *Professional Standards*), when such services are performed as an AUP engagement?

.10 *Interpretation*—No. The distribution of the procedures or findings, or both, of the practitioner's due diligence services in the prescribed form or Form ABS-15G is not prohibited. A practitioner is not required to prohibit the distribution of the procedures or findings, or both, contained in the AUP report that may be disclosed in the prescribed form or Form ABS-15G because the distribution of that information is required by regulation to be made available to the public, as described in paragraphs .01–.08 of this interpretation.

.11 Footnote 16 of AT section 101, *Attest Engagements* (AICPA, *Professional Standards*), states, "In some cases, restricted-use reports filed with regulatory agencies are required by law or regulation to be made available to the public as a matter of public record. Also, a regulatory agency as part of its oversight responsibility for an entity may require access to restricted-use reports in which they are not named as a specified party."

.12 *Question*—The prescribed form contains certain language that is inconsistent with language

1. For purposes of this interpretation, the term *release* refers to the SEC rules amended by SEC Release No. 34-72936, *Nationally Recognized Statistical Rating Organizations*, and the accompanying release text.

commonly used in AUP reports and could be misinterpreted by those who have access to the prescribed form (for example, the term *review* is included in the prescribed form). In addition, the prescribed form does not include all elements of an AUP report required by paragraph .31 of AT section 201.

.13 What are the practitioner's responsibilities when due diligence services (as defined in the release) have been performed as an AUP engagement and the practitioner is required to complete the prescribed form, which includes language that is inconsistent with the practitioner's function or responsibility, or is incomplete with respect to the reporting requirements of the professional standards?

.14 *Interpretation*—Paragraph .67 of AT section 9101, *Attest Engagements: Attest Engagements Interpretations of Section 101* (AICPA, *Professional Standards*), addresses such a situation in the context of reporting on the suitability of the design of an entity's internal control under AT section 101 and indicates that the practitioner should either reword the prescribed form of report or attach an appropriately worded separate report that conforms with the practitioner's function or responsibility and professional standards. Therefore, when completing the prescribed form for due diligence services that have been performed as an AUP engagement, the practitioner should include all of the elements in paragraph .31 of AT section 201 and any clarifying wording to avoid any misinterpretation. This may be accomplished by either adding wording to the prescribed form or attaching an appropriately worded separate report to the prescribed form, or both.

.15 *Question*—How might the practitioner modify the illustrative report wording in AT section 201 in order to clarify the requirements and limitations of AUP engagements and reports as it relates to due diligence services as defined in the release?

.16 *Interpretation*—Paragraph .79 of AT section 101 states the following:

> The need for restriction on the use of a report may result from a number of circumstances, including the purpose of the report, the criteria used in preparation of the subject matter, the extent to which the procedures performed are known or understood, and the potential for the report to be misunderstood when taken out of the context in which it was intended to be used. A practitioner should consider informing his or her client that restricted-use reports are not intended for distribution to non-specified parties, regardless of whether they are included in a document containing a separate general-use report.[16, 17] However, a practitioner is not responsible for controlling a client's distribution of restricted-use reports. Accordingly, a restricted-use report should alert readers to the restriction on the use of the report by indicating that the report is not intended to be and should not be used by anyone other than the specified parties.

[16, 17] Footnotes omitted for purposes of this interpretation.

.17 As noted in paragraph .31 of AT section 201 and paragraph .79 of AT section 101, a practitioner does have a responsibility to disclose certain limitations of AUP engagements in the AUP report. However, the modifications can be made only to meet the requirements of the professional standards.

.18 Because distribution of procedures or findings, or both, to non-specified parties may cause those non-specified parties to misunderstand the restricted use limitations of AUP reports, the practitioner may modify the illustrative language in paragraph .32 of AT section 201, consistent with the requirements in paragraph .31*l* of AT section 201, to clarify in the AUP report or prescribed form that the information with respect to the procedures or findings, or both, contained therein is not intended to be used by non-specified parties that may have access to the procedures or findings, or both, as required by the release (for example, NRSROs and investors).

.19 Because the prescribed form utilizes the term *review*, the practitioner may also add language in the prescribed form that the practitioner did not conduct a review in accordance with the AICPA attestation standards.

[Issue Date: February 2015.]

ETHICS REVISED INTERPRETATIONS

THE REVISIONS AND ADDITIONS CONTAINED IN THIS DOCUMENT ARE EFFECTIVE ON APRIL 30, 2015.

Ethics interpretations and definitions are promulgated by the executive committee of the Professional Ethics Division to provide guidelines about the scope and application of the rules but are not intended to limit such scope or application. Publication in the Journal of Accountancy *constitutes notice to members. A member who departs from such guidelines shall have the burden of justifying such departure in any disciplinary hearing.*

(Additions appear in ***boldface italic****)*

The Professional Ethics Executive Committee has adopted the following revised interpretations under the "Independence Rule" [1.200.001] "***Individual in a*** Campaign Treasurer ***or Similar Financial Position***" [1.275.025] and "Client Affiliates" [1.224.010] and revised paragraph .03 of "Definitions" [0.400].

Text of Revised "*Individual in a* Campaign Treasurer *or Similar Financial Position*" Interpretation

(Additions appear in ***boldface italic****, and deletions are* ~~*stricken*~~*.)*

1.275.025 ***Individual in a*** **Campaign Treasurer** ***or Similar Financial Position***

01. For purposes of this interpretation, a campaign treasurer would also include individuals with similar financial responsibilities as a campaign treasurer. While other campaign positions may result in threats to compliance with the "Independence Rule" [1.200.001], such positions are not covered by this interpretation. Accordingly, members should consult the Conceptual Framework for Independence [1.200.010] if partners or professional employees serve in campaign positions not specifically addressed by this interpretation.

Campaign Organization Is Attest Client

02. ~~01.~~ If ~~a partner or professional employee of a member's firm~~ ***during the period of the professional engagement or during the period covered by the financial statements, a partner or professional employee of a member's firm*** serves as ~~the treasurer for a mayoral candidate's campaign organization, during the period covered by the financial statements or during the period of the professional engagement and the campaign organization is an attest client, the management participation threat to the member's compliance with the "Independence Rule" [1.200.001] may exist. The threat~~ ***a campaign treasurer and the campaign organization is an attest client, the management participation threat to the member's compliance with the "Independence Rule" [1.200.001]*** would not be at an *acceptable level* and could not be reduced to an *acceptable level* by the application of *safeguards*. Accordingly, *independence* would be *impaired*.

Candidate Running for Election of a Governmental Entity That Is an Attest Client

03. ~~02.~~ If~~, instead, the candidate's political party or the municipality in which the candidate may become mayor is an attest client, the threat to the member's~~ ***during the period of the professional engagement or during the period covered by the financial statements a partner or professional employee*** ~~is~~ ***serves as a campaign treasurer for either*** (a) ***an elected official of a governmental entity that is an attest client, or*** (b) ***for a candidate who is running for election but is not yet an elected official of such attest client, then advocacy, adverse interest, and familiarity threats to*** compliance with the "Independence Rule" [1.200.001] would **not** be at an *acceptable level* ***and could not be reduced to an acceptable level by the application of safeguards***. Accordingly, *independence* would ~~not~~ be *impaired*.

Political Party Is Attest Client

04. If during the period of the professional engagement or during the period covered by the financial statements a partner or professional employee serves as a campaign treasurer for a candidate and the political party for which the candidate is a member is an attest client, advocacy and familiarity threats may exist. Accordingly, a responsible individual within the firm should evaluate the significance of the threats to determine if the threats are at an acceptable level. If the responsible individual within the firm determines that threats are not at an acceptable level, he or she should apply safeguards to eliminate or reduce the threats to an acceptable level. However, threats would not be at an acceptable level and could not be reduced to an acceptable level by the application of safeguards and independence would be impaired if the candidate is a member of one of the political party's governing bodies.

General

05. ~~03.~~ *In the state and local government environment, members should consult the "Entities Included in State and Local Government Financial Statements" interpretation [1.224.020] to determine which entities related to their attest client require the member's independence. Also* ~~r~~Refer to the "Conflicts of Interest *for Members in Public Practice*" interpretation [1.110.010] of the "Integrity and Objectivity Rule" [1.100.001] for additional guidance. In addition, *members* in such positions should consider their obligations as *members in business* under part 2 of the code. [Prior reference: paragraphs .164–.165 of ET section 191.]

Grandfathered Positions

06. Independence would not be impaired as a result of the more restrictive requirements of this interpretation that are effective on April 30, 2015, provided the attest engagement commenced prior to April 30, 2015, and the member was in compliance with the preexisting requirements of this interpretation.

[See Revision History Table.]

Text of New Paragraphs of the "Client Affiliate" Interpretation

(Additions appear in ***boldface italic***, and deletions are ~~stricken~~.)

1.224.010 Client Affiliates (in part)

Acquisitions and Other Business Combinations That Involve a Financial Statement Attest Client

05. The exception in paragraph .06 would apply when (1) a financial statement attest client is acquired during the period of the professional engagement by either a nonclient or a nonattest client (acquirer), (2) the attest engagement covers only periods prior to the acquisition, and (3) the member or member's firm will not continue to provide financial statement attest services to the acquirer.

06. Independence will not be considered impaired with respect to the financial statement attest client because a member or member's firm has an interest in or relationship with the acquirer that may otherwise impair independence as a result of the requirements of this interpretation or the definition of "attest client" (as it relates to the entity or person that engages the member or member's firm to perform the attest engagement).

07. Notwithstanding paragraph .06, a member should give consideration to the requirements of the "Conflicts of Interest" interpretation [1.110.010], under the "Integrity and Objectivity Rule," [1.100.001] with regard to any relationships that the member knows or has reason to believe exist with the acquirer, the financial statement attest client, or the firm.

08. A member should refer to paragraph .03 of "Application of the AICPA Code" [0.200.020] for guidance on circumstances involving foreign network firms.

Effective Date

~~.05~~ *.09* ~~This interpretation~~ *Paragraphs .01 through .04 are* ~~is~~ effective for engagements covering periods beginning on or after January 1, 2014. Early implementation is allowed.

[See Revision History Table.]

Text of Revised "Attest Client" Definition [0.400.03]

(Additions appear in ***boldface italic***.)

03. **Attest client.** A *client* that engages a *member* to perform an *attest engagement* or with respect to which a *member* performs an *attest engagement*.

See paragraph .06 of the "Client Affiliate" interpretation [1.224.010] for acquisitions and business combinations that involve a financial statement attest client.

[See Revision History Table.]

CLASSIFIEDS

Careers

Accounting Controller sought by AMERIKOOLER, INC., located in Hialeah, FL, w/ min 4 yrs relevant work exp & U.S. Master's Deg in Finance or rltd field or foreign deg equivalence. Send resumes by mail to **Amerikooler, Inc., Attn: Rachelle Rodriguez, 575 East 10 Ave, Hialeah, FL 33010**.

Budget Analyst (Houston, TX) Develop, analyze, execute budget & estimate future financial needs of company. Prepare quarterly & annual reports. Direct preparation of regular & special budget reports & analyze the facility's monthly budgeting & acctg reports to maintain expenditure control. Req BS in Accounting or Finance w/ 2 yrs exp (Accountant, Internal Auditing). Send resume: **Melody Bugarin, Northwest Healthcare Services, Inc.,11650 Possum Hollow Ln. Houston, TX 77065.**

Books/Publications

The definitive resource for forensic accounting essentials *Essentials of Forensic Accounting* defines and explains the disciplined approaches to forensic accounting that lead to a thorough knowledge of the field's varied specialties. Themes addressed include: professional responsibilities and practice management; fundamental forensic knowledge, laws, courts, and dispute resolution; and specialized forensic knowledge, bankruptcy, insolvency, and reorganization. **www.cpa2biz.com (Product #PFF1401P).**

Marketing Management for Non-Marketing Managers This engaging new book offers practical ways for nonmarketing managers and executives to measure and improve marketing returns. It gives you the tools you need to be able to correctly assess the potential of your marketing and accurately evaluate the returns. A marketing performance evaluation tool that assesses and improves your organization's marketing management is also included. **www.cpa2biz.com (Product #PCG1304).**

Order now for practical, hands-on M&A advice *Navigating Mergers & Acquisitions: Guidance for Small- and Mid-Sized Organizations* is ideal for organizations considering M&A as a part of their growth strategy, as well as CPAs and consultants who are engineering these deals. Using a cookbook approach, this new AICPA title will help you understand the major aspects of the M&A process, including due diligence, common transaction documents and terms, and examples specifically tailored to middle-market companies. **www.cpa2biz.com (Product #PGN1302).**

Professional Services

IRS Form 1023 Help: samples, worksheets, links, reinstatements, 1023-EZ FAQs. Plain English. **www.501c3book.com**

Maryland CPA firm offers outsourced professional services starting at $12 per hour. All services are coordinated and supervised by US CPAs. To learn more, visit **www.affluentcpa.com** or email **ajit@affluentcpa.com.**

Marketing/Consulting

FREE brochure for accountants–*How to establish your fees*. Go to **www.mostad.com/fees2015** or call Mostad & Christensen at **800-654-1654.**

How to add $100,000 in revenues each year. **www.coachpatton.com/business-development-2015.html**

Offer Valuation Services to your clients and earn $10k+ per year. **www.pattonvaluations.com**

Sales/Mergers/Acquisitions

CPA practice for sale, small town, Eastern Wyoming, edge of the Black Hills. Growth potential. E-mail: **lindakholland@rtconnect.net.**

Sales/Mergers/Acquisitions

Texas - N Dallas, $550,000, high quality small business clients, 65% tax – 35% compilation/reviews, year round cash flow, long-term staff, owner transition, reply to **dallasfirm1@gmail.com.**

Successfully Selling Your Accounting Practice by Rick Harrison of ProHorizons. **Available through Amazon.**

CLASSIFIEDS

Sales/Mergers/Acquisitions

Self-Study/CPE

IFRS Certificate Program The IFRS Certificate Program includes a comprehensive, integrated curriculum of 25 online self-study courses. This scenario-based series of courses uses multimedia elements such as audio, video, and interactive exercises and case studies to guide you through the concepts under each area of IFRS. **www.cpa2biz.com (Product #159770).**

XBRL U.S. GAAP Certificate Program This online training program from the AICPA and XBRL US provides the tools and strategies you need to understand and create high-quality XBRL financials. You'll gain the complete XBRL proficiency you need to stay compliant with SEC rules and avoid liability issues. **www.cpa2biz.com (Product #159945).**

Fundamentals of Forensic Accounting Certificate Program Gain a solid understanding of financial forensics. Covering the AICPA's entire body of knowledge on this topic, this online CPE program will help you become familiar with the forensic accountant's professional responsibility and provide a fundamental knowledge of the legal system, gathering information, discovery, reporting, providing expert testimony, and more. **www.cpa2biz.com (Product #159950).**

Unlimited CPE at an affordable subscription price Your topics. Your CPE. Fast! Get access to more than 450 courses and earn CPE in the topics you want. Essential accounting topics include tax, ethics, revenue recognition, and more. Courses are available 24/7, and you can complete courses in as little as one hour. **www.cpa2biz.com (Product #BYT-XX).**

Ethical leadership and influence for finance professionals Develop your leadership abilities with this collection of online management accounting training courses. This CPE course bundle brings together our best online management accounting courses and covers skills such as coaching, setting the tone for your organization, becoming a better influencer, acting as an ethical role model, and operating as a true business partner through effective communication. **www.cpa2biz.com (Product #159971).**

Advertising Index

Publication of an advertisement in the *Journal of Accountancy* does not constitute an endorsement of the product or service by the *JofA* or the AICPA.

THE LAST WORD

I teach Introduction to Financial Accounting, which is usually the first accounting course anyone takes. It's really bad to go to a class and start lecturing from bullet points about abstract concepts. I want it to be fresh and real. When you start talking about real-life companies, it becomes more interesting. It's storytelling. So I decided two years ago to create a blog called Accounting in the Headlines (accountingintheheadlines.com), where twice a week I write a short article. It's one to three paragraphs where I take some news item that's in the popular media and recast it in accounting terms.

I'm a voracious reader. When I read stories, I'm looking for news about companies that are recognizable, because students learn best if they start with what's familiar. From an education standpoint, I buy into this idea of scaffolding: You start with what the student knows. The student might be familiar with a company. I can then try to explain that new concept in layman's terms without getting really detailed. If you were to throw a company's annual report at students and say, "Here, let's just figure it out," it's overwhelming; it makes no sense.

Accounting is like a foreign language to students the first time through, but stories about real companies let them see that accounting isn't just for accountants. This material affects everyone. A lot of my students aren't even business majors. Fashion majors and sports administration majors, for example, have to take financial accounting. They get to see that accounting issues in a company might impact them. Stories really show the applicability of accounting and why we need to understand it.

Wendy Tietz, CPA, CGMA, Ph.D.
Associate Professor of Accounting,
Kent State University

As a faculty member, it can be difficult to find real-life news stories related to accounting that you can use in the classroom. The blog is my offering to other accounting educators. They're welcome to use it in their own classes. I hear from my colleagues that they do use it. In fact, my husband is an accounting professor, and he uses the stories in his class.

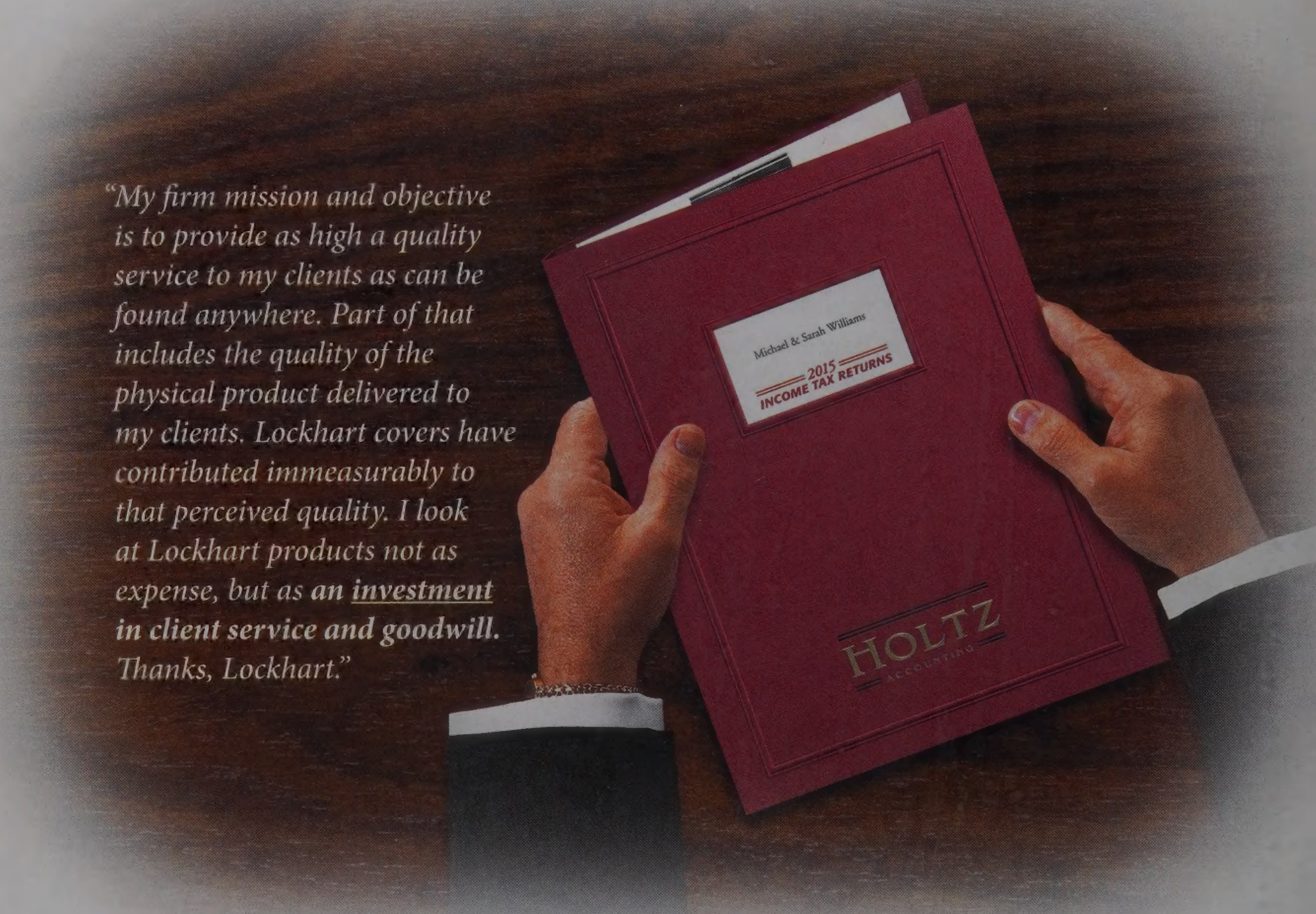
My class is delivered in a unique way. It is pretty exciting. My classroom holds more than 200 students. In addition, a large number of students attend my class live online. My graduate assistant comes to class with me, and we're actually doing live broadcasts of class. Students see a small video of me during class, but they also see what's on the screen like PowerPoint, Excel, or whatever tool I am using. If I draw on the screen, they see that, too. They can hear my voice. My graduate assistant runs a chat room, and students can ask questions and interact with us even though they are not physically in the classroom with the rest of the students.

It's not just this one-way broadcast. My audience is the students online and the students physically in front of me. I can answer questions from the people in front of me, and my graduate student is answering the students online, and then she lets me know if there's anything I need to know. Class is recorded so that my students can go back and review it. It has almost a little bit of an entertainment flavor to keep them engaged, and that's where, again, the stories come into play.

To make class more interactive, I can send questions to any web-enabled device they have: a smartphone, tablet, or computer. That's how students earn participation credits for class. I'm not going to drone on and on for 75 minutes. To sit and just listen to someone talk doesn't allow you to learn. Using technology to ask students questions about the material allows me to get immediate feedback from all of my students, not just the ones sitting right in front of me. It also helps engage the students with the material. When you think about a room with 200 students sitting in it, how many students do you think are going to sit there without their phones in their hands? Why not embrace that to make it part of class instead of fighting it?

—As told to Sheon Ladson Wilson (sheonlwilson@aol.com), a freelance writer in Durham, N.C.

Don't Let Them Leave Empty-Handed.



Your deliverable is a proxy for your physical presence.

It's more than "just" a report or collection of numbers for them. It's an **experience** and conveys your firm's professionalism and attention to detail. See and feel the difference Lockhart's quality and craftsmanship will make in your professional presentations.

Request a FREE prototype folder
with your firm graphics!

CALL 800-966-2709 for Special Offer #JB4515
or VISIT www.PresentationFolders.com/free

Risk Free. Nothing to sign. No credit card required.
A high resolution, digital file of your firm's logo is required.

THE LOCKHART GUARANTEE
You risk nothing! 100% unconditional guarantee.

LOCKHART
Brand Your Image of Excellence™

www.PresentationFolders.com (800) 966-2709